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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Ashe, G. L. (Durham West PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
Hart, C. E. (York East L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

McLean, A. K. (Simcoe East PC) for Miss Stephenson

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

Witness:

Francis, D., Author, Controlling Interest: Who Owns Canada?



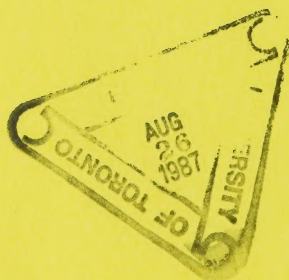
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION

THURSDAY, OCTOBER 16, 1986



LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, October 16, 1986

The committee met at 9:19 a.m. in committee room 1.

ORGANIZATION

Mr. Chairman: We are ready to start. This morning at 10:30 Diane Francis, the author of *Controlling Interest: Who Owns Canada*, will be joining us. She indicated to me she had some things to say that were not of general public interest and were therefore not included in the book but that she wishes us to discuss with her. We look forward to that.

We have some housekeeping to do as a result of a steering committee meeting that occurred subsequently to our last meeting. After the housekeeping, I hope we can get started on tussling with what we will say in our report. In preparation for that, David Bond has done a summary of recommendations and presentations to the committee, which is in front of you. It includes 10 subject matters with a short précis of the views of various witnesses. We thought that was preferable to trying to summarize the witnesses in a chronological way, in view of the fact that we are really trying to get to the germ of where things stand on those topics.

Before we get to that, you also have a copy of Franco Carrozza's memorandum of October 15, which quotes a motion that was adopted by the steering committee on Mr. Foulds's motion. David Bond has already prepared a list of experts in the field of econometrics and taxation and he has the curriculum vitae available. The question is simply how we will go through with hiring people. I suppose the question is still up in the air about how much time we are going to have to deal with some of these matters and about the extent to which we are going to be able to use them.

In any event, it is the view of the steering committee that we are going to need a tax accountant and an econometrician. It is conceivable that we could use a public finance economist, but David may be able to fill that role in dealing with the other two.

What we need now is for the full committee to adopt the recommendation of the steering committee.

Mr. Ferraro: What is the motion?

Mr. Chairman: The motion of the steering committee is in front of you.

Clerk of the Committee: Just to prepare the material so that we can bring it to the attention of the committee.

Mr. Taylor: To do the list, you mean.

Clerk of the Committee: Yes.

Mr. Taylor: That is all you are doing.

Clerk of the Committee: Yes, that is all.

Mr. Taylor: Mr. Chairman, can you explain for my benefit, because of my recent entrance to this committee, the area of expertise we are focusing on and the reason for it?

Mr. Chairman: We are breaking new ground here in that we are trying as a legislative committee to participate in the budget-making process. The Treasurer intends to table in the House within a few weeks an economic outlook for the province, which will be the best prognosis his ministry feels it can make about what the revenues and expenditures are going to be in the next year. That is apparently the beginning of the budget-making process in so far as the ministry is concerned. It takes that. It takes the fact that most expenditures are built in and virtually impossible to tamper with. It then looks at the pressures that are there and the pressures that are coming from the community, and it all comes together into a budget.

The thought was that we would take that document also. We would look at it to the extent that we can from the outside, but using as much assistance as we can from the ministry, because obviously it would be redundant for us to try to duplicate everything the ministry has in the way of information.

see Bob's hand up, but perhaps David can explain exactly why we need a tax accountant and an econometrician.

Mr. Taylor: You might assuage my ignorance by explaining what an econometrician is. It might be helpful to me and maybe even to persons pursuing the record some time hence.

Mr. Mackenzie: David's response to a comment I have might be of assistance in answering Jim. I took it from the conversations we had that part of the reason for wanting this kind of expertise before us is so we can get a pretty accurate idea of what the actual dollar value is of various tax measures, what you are gaining or losing by certain tax measures. I took that as being part of--

Mr. Taylor: When you speak of taxation, I think of all types of taxation, whether it is municipal taxation, personal income tax, corporate income tax or the incidence of taxation. It is a broad field when you talk about taxation. I did not know the skills you were seeking and whether they pertained to a specific area. In terms of economists, econometricians and so on, I am not sure what you are attempting to achieve. It will help me if I know.

Mr. Mackenzie: If I am wrong, David might respond to it, but I thought that was part of it. In practical terms, I like to be able to put some dollar value on what the hell measures are being suggested.

Ms. Hart: You are saying a tax accountant. As I understand it, tax advice is divided by accountants and lawyers. Accountants do numbers and lawyers do broader planning. Believe me, I hold no brief for them; I just wonder why you are focusing on accountants. I do not quite understand what we want from a tax accountant.

Mr. Bond: Perhaps I can first explain the role of the econometrician. Another word for macroeconometrician is applied macroeconomist. Basically, they do the modelling that the Treasurer uses when

he makes his projections. For example, if he wants to find out the effect on the Ontario economy of a major tax cut of \$500 million, he would give that policy to a modellist or a macroeconometrician, who would put it through an Ontario economy model. There are a number of such models. They would do the forecasting and decide whether it would be a good policy or a waste or how it would assist or take away. It would take away from government revenues, but it might give the general economy a boost it needs and the government could earn revenues in other areas.

Mr. Mackenzie: In a nutshell, it would give the spinoff effects of that tax measure.

Mr. Bond: That is right.

Mr. Taylor: I understand that, but it strikes me that there may be a specific area the committee is interested in pursuing and it will depend. Maybe the universities have economic models that they are working on.

Mr. Bond: They do.

Mr. Taylor: We might want to farm it out to a university. It might be an in-house function with our Ministry of Treasury and Economics. It might be something from Ottawa. I wonder whether the concept is to have someone on staff. I am mindful of the expense of this type of thing. Mr. Chairman, you will recall that we got into this in the select committee on economic affairs dealing with trade. Those things do not come cheap. I did not know whether we were going to have someone with that title sit here and, if so, what his function would be, or whether it was something pragmatic in terms of tendering out some part of the process.

09:30

Mr. Bond: May I answer just that? Franco and I have considered two methods. We could hire directly by contract a person on an hourly basis, and we were actually thinking of someone from the university; or we could second somebody from the Ministry of Treasury and Economics. I have spoken to people in Treasury. They like the former option because they say they really do not have the manpower to offer us anyone, but if we made the request, it could be approved by the Treasurer.

Ms. Hart: Following on from this, perhaps I can add something. I have a real concern, as somebody who has worked on an hourly basis, about someone sitting here hour after hour without a specific task. Perhaps I am just task-oriented.

Mr. Bond: The committee would direct him--

Interjection: To do the research work.

Mr. Bond: --to do work, and he would help us to interpret what the Treasurer will be telling us, for example, on measures. He would be able to help us test assumptions that the Treasurer's office was making in the prebudget statement.

Mr. Taylor: I certainly do not object to a list if it is just a shopping list of where we might plug in if we wanted to address certain problems. That is the nature of the resolution, really.

Mr. Chairman: It may be premature to finalize any agreement with anybody, because we are not sure at this moment how much time we are going to have to work on it ourselves.

Mr. Taylor: It was a matter of whom you get on that list. The taxation area concerned me a little more in terms of putting people on the list who may be in a different area of expertise.

Clerk of the Committee: If I may assist here, Mr. Taylor and the committee, the lists are simply for the committee to review to decide later what it wishes to do. This is simply to give you an idea of who are the people outside who could be of assistance to the committee. That is all this motion says and that is all the paper will say.

Mr. Taylor: It would not be all-inclusive, presumably.

Clerk of the Committee: No, it will not.

Mr. Taylor: We could draw on others.

Clerk of the Committee: These are some of the ideas we have found to assist you. It can be added to, subtracted from, whatever the committee wishes to do, whichever field it wishes to pursue.

Mr. Chairman: Once we have this resolution, then if and when the time is right, the subcommittee can go ahead and work on it.

Clerk of the Committee: The committee, after it reviews the paper, can say to the subcommittee: "Go ahead. Choose someone for you to review and when you have reviewed your choices, bring them back to the committee for final review and adoption."

Mr. Mackenzie: It is probably premature even for these remarks, but in reviewing the list, as we all will have to do, I hope we will look harder at somebody who is not in-house than at somebody who is in-house. That may support the feelings of Treasury, but if this committee were going to try to make an objective assessment of what these tax measures did, I would not want somebody who was preparing the damn budget to be doing the advising to the committee.

Mr. Chairman: Yes. I think the subcommittee was generally of that view.

Clerk of the Committee: To answer your question, Mr. Mackenzie, the only reason we put down the secondment is that the committee would not be paying for these individuals. That is the only reason.

Mr. Mackenzie: I understand the money angle. I am not sure it would make any sense to anybody objectively looking at any recommendations we made.

Clerk of the Committee: That is a drawback; that is correct.

Mr. Chairman: It could be a very major drawback.

Mr. Bond: I wanted to answer your question, Ms. Hart, about the tax accountant. When we use the term "tax accountant," we are not speaking of your average accountant who just does personal income taxes. We were thinking of

someone with a specialty in public finance who has had experience with the revenue side of budget formulation, someone who could assist us with the number crunching that this committee would have to deal with if it were to look in any concrete form at budget proposals by the Treasurer's office.

Ms. Hart: May I respond to that?

Mr. Bond: Sure.

Ms. Hart: I am concerned about that because I have done a little tax litigation and I know there is a real demarcation between what accountants do and what lawyers do. The lawyer seems to use a broader brush. If we were looking for help with policy directions, then we would not go to an accountant. If you are talking about number crunching, then all right.

Mr. Bond: I knew there were quite a few lawyers on the committee; so I assumed there was a certain amount of expertise.

Ms. Hart: But probably none of us has had experience in tax.

Mr. Bond: No?

Mr. Chairman: No.

Mr. Bond: Perhaps we should consider a tax lawyer first.

Mr. Chairman: As well as an accountant?

Mr. Bond: It is an idea if we will be making policy recommendations. Perhaps we could second someone from the Provincial Auditor's office, because they have that type of legal expertise. The accountant, too, could be seconded from the Provincial Auditor's office.

Mr. Haggerty: They could well be one of our witnesses.

Mr. Bond: This is assuming they have the staff for it.

Mr. Haggerty: Maybe we could have them appear before the committee.

Ms. Hart: As witnesses.

Mr. Haggerty: That is probably the best.

Mr. Bond: I believe the committee genuinely needs professional staff if it is to tackle the work load the Treasurer is thinking of giving us.

Mr. Chairman: We could second the Provincial Auditor from the standing committee on public accounts to our committee.

Clerk of the Committee: Or someone else.

Mr. Bond: Not the auditor himself.

Mr. Chairman: No.

Clerk of the Committee: Not the auditor, but he could appoint someone.

Mr. Bond: Someone from his office.

Mr. Chairman: All right. Where do we stand? Does somebody wish to amend this motion or does someone wish to move it as it stands?

Ms. Hart moves that the clerk of the committee with the assistance of the committee research officer compile a list of experts with expertise in the field of econometrics and taxation, present this list to the committee for its approval and, further, that the clerk prepare an appropriate budget for the committee.

Mr. Chairman: Is there any further discussion? All in favour?

Motion agreed to.

Mr. Chairman: By the way, I was out of the House during motions yesterday and when I came in this morning, I was informed that we had been assigned the estimates of the Ministry of Revenue and of Management Board of Cabinet. We will deal with them when we can. It is news to me.

Perhaps we can take a look at Mr. Bond's memo to us entitled Summary of Recommendations in Presentations to Committee. I do not know whether members of the committee would like to take one of the 10 sections he has divided this into and look at it. We do not necessarily have to start at the top and work down. I rather expect some of these matters are of greater concern than others to members of the committee. Would you like just a moment to read it over?

Mr. Taylor: Financial institutions were dealt with in some detail by the previous committee. That was in conjunction with a very long-standing committee on corporate law. Some will remember that. The first chairman was none other than Allan Lawrence, as I recollect.

Clerk of the Committee: Was it company law?

Mr. Taylor: Company law. It played longer than Hello, Dolly. In any event, latterly, it got into financial institutions and trust companies, which was probably more significant in the light of some of the then current news of trust companies defaulting and some of the problems surrounding that. I point that out only to refresh the committee's memory that some of the work of that committee has been reviewed by ministries of government and action has been taken on that. It might be more productive for the committee to concentrate on other areas. I just put that to you. You may want to pursue that further. I remember quite a number of persons from the banking and trust company community coming before the committee. I happened to serve on that committee.

09:40

Mr. Mackenzie: That was the first direction this committee undertook. I think we would have liked to some extent a broader approach, but the financial institutions were to be dealt with first on the schedule that was set up. That is all we have really dealt with, although it obviously interacts with just about every area of our economy. Also, I think the Dupré task force report is a useful document that gives us a fair amount of information.

Mr. Chairman: We have looked at some matters that have been in the public eye since the committee report you mentioned. I think what you are

saying is valid. The federal standing committee on finance, trade and economic affairs took a look at these matters when the issue of Imasco, Genstar and so on arose early this year. We have been looking at whether we should be commenting on that in the provincial context. It may be that there is nothing that we can add to it, but on the other hand--

Mr. Taylor: I am not suggesting we ignore it; I am just suggesting there should be a lot of information around. I believe Blenkarn chaired the federal committee.

Mr. Chairman: Mr. Blenkarn has agreed to appear before our committee. We do not have a time set yet, have we?

Clerk of the Committee: I have not been able to get hold of him.

Mr. Chairman: All right.

Mr. Taylor: It is a matter of not duplicating, if we can learn from another committee's work.

Mr. Chairman: It may be that the committee is getting a feeling of where it wants to go. I do not know that we are, but I think this is an opportunity to pursue that.

Mr. Taylor: There is a lot of good material out too. There are interesting books, which I am sure the committee members have read. A few years ago there was one by your friend, Bob--I think Stewart was the author--was it Towers of Gold, Feet of Clay or vice versa?

Mr. Mackenzie: The best one before that was The Vertical Mosaic.

Mr. Taylor: Then there was The Moneylenders, if you are talking about banking. There are all kinds of them now.

Mr. Ferraro: McQueen's book too. There is one on financial institutions and one on the insurance industry.

Mr. Chairman: Let us start with concentration. We have heard arguments to the effect that we do not really have a problem. Are there any views to the contrary? Do we have a problem with concentration? An American would probably be somewhat surprised at some of the concentration that goes on in our country.

Mr. Ferraro: The only real difficulty I have is based on the premise that everyone has heard 1,000 times, the more competition, the better off the consumer is, which flies in the face of many of the presentations we have had to date, which tell you--from a biased standpoint, of course, as far as many of the presenters are concerned--that concentration, as far as it exists in the financial industry in Ontario and Canada, is not a problem.

In essence, the two hypotheses are in direct opposition to some degree. As far as I am concerned, the problem is to figure out to what degree. Either the present situation makes it very competitive and the consumer is benefiting or it does not. As far as I am concerned, that is the determination we have to somehow grapple with if we are going to make a determination on whether concentration as it currently exists is a problem. How the hell we do that is another question.

Mr. Chairman: Perhaps we do not even accept the premise that competition results in a benefit to the consumer. Maybe that is not necessarily the case.

Mr. Ferraro: I do not have any problem with that.

Mr. Haggerty: I go back to the word "concentration." I think of the corporations and the takeovers. Take Imasco, where first Genstar came in and took over Canada Trust, and from there you go right around the big circle. If you look at the concentration there particularly, what they are after in this area is the trust company itself, which is one of the strongest in Canada, and the revenue it produces. Look at the harsh takeovers involving companies, even Canadian Tire, for example, which is a well-organized corporation doing very well in Canada, set up by the family that started it. All of a sudden there is a move on the stock market and a takeover of this industry. To me, that is concentration.

When you get something going well, then you have the power officials or the power structure above that. You call it concentration when they say: "This is the next one that is going to be on the hit list. We are going after that one."

It eventually comes back to what Mr. Ferraro has said about the competition. Remove competition from the market in a sense. If you look at the example which has taken place in the United Steel Corp. on the American side, you have this one money-maker who is in there now and knows the financial difficulty it is in. They are out on strike, and he is going in and is probably bound and bent he is going to take it over. He will probably make a go of it, but they are empire-building. Once they get it going, they will turn around and sell it off for millions of dollars. That is how I look at the word "concentration."

We are going to have Diane Francis here later. She is probably going to deal with the families of wealth that are here through concentration. I would be concerned about it when three to four corporations, or maybe more that, in a sense can control the economy and can control the government.

Take ITT in the US and the power it used to have. It could go in and almost take over a country, for Pete's sakes, until it was broken up in the US through deregulation, you might say, of the industry. Now it seems to be doing very well in the US.

Mr. Ferraro: Maybe we should do the same thing to Bell Canada.

Mr. Haggerty: If you are talking about Bell Canada, look at what has taken place recently there. They are saying consumers should be given back \$200 million; but Bell is into not only communications but also transportation. It has a big investment in the trans-Canada pipeline that sets the gas rates, you might say, in Toronto and in Ontario. You have only to look at the power of concentration there and the question is, is it in the best interests of Canadians and the Canadian government or even the provincial governments that power is invested through that much concentration?

Mr. Mackenzie: I do not know whether we are satisfied with whether there exists a problem in concentration at the moment or whether it has just enabled the various players to get into each other's markets and be a little more effective on the world market. I still do not think you can argue that

concentration is not, if not an immediate problem, a real potential problem. I think some of the stuff in Diane Francis' book indicates that. It goes along somewhat the same lines as Mr. Haggerty's comments. We have had a fantastic increase in ownership in the past 10 years. The rate of takeovers is 50 per cent higher in the last 10 years than in the previous 10 years; it is larger and there is more involved. The concentration of control and ownership in itself is a matter of very great concern to me.

09:50

Mr. Chairman: There is no doubt that we have more billionaires per capita than the United States, and you can read that from the book. Is it doing us any harm, other than there are people in the street who do not have--

Mr. Mackenzie: It is just that the control gives you more power even than governments have. That is my long-term concern.

Ms. Hart: I am new to this committee, and perhaps my view is not sufficiently informed as yet; but I have had extensive experience in one sector of our economy, and that is transportation, both international and interprovincial. That is a heavily regulated industry. From my own experience, even in the last five years the numbers of trucking companies that were national and international have decreased significantly. They are deregulated south of the border. We are in the process of doing that here. I have not yet made up my mind whether that is a good or bad thing for the consumer, which is all of us ultimately. However, the more immediate consumer of transportation is the shipper of goods from place A to place B.

From my own experience of what has happened, it seems that the middle-sized Canadian company, which is the largest Canadian-type company, is disappearing and the larger, capital-based companies have taken over all of the middle-sized companies. We still have the little ones that are local trucking companies, and that is probably a good thing for a small community, but our major trucking industry is now held by very few companies, two or three at most. Most of them are owned south of the border or in Australia. That is another question altogether.

I do not know whether that is a bad thing, but it is raising a lot of questions in my mind. Is that the way we want that sector to go? We have totally eliminated a whole type of company, a middle-range company that has been a big employer in Canada, a very employment-intensive industry. That is a major change in a space of five years.

Mr. Chairman: Are you saying the small or the regional trucking firms that the member for Wellington South (Mr. Ferraro) and I would know in our region are owned by one or two conglomerates?

Ms. Hart: Yes.

Mr. Chairman: It is interesting. Incidentally, on that issue, if you apply that to trust companies, you will note the second item from the bottom on page 1, the trust company association basically seemed to think the marketplace should be allowed to decide.

Ms. Hart: I have a problem with that. As I said, I have been intimately involved in this regulated industry. I do not think heavy regulation is the way to go either, because it breathes complacency, high rates and lack of competition; but there has to be a happy medium somewhere.

We are in the process now of takeovers. Off the top of my head, I can name six major companies that no longer exist. During that process, rates will go down, competition will be fierce and things such as safety and maintenance of vehicles will go out the window in that period.

My concern is that in the end, when the process is more mature, since the industry is going to be in the hands of very few companies, the rates can be dictated.

Mr. Mackenzie: Unless we were given inaccurate information, which is not my interpretation of it--and I would ask my colleague to read the Hansard of the testimony of the three trucking company vice-presidents who appeared before the committee on free trade--in both their presentations and in the questions they were asked, I thought they gave a rather devastating picture of what had happened. As members here who were on the committee will remember, they argued against free trade, but they made it very clear that if the agreement were to be instituted, they would have to have immediate deregulation.

They were asked about the effects of deregulation in the United States. I think they raised it before we asked about it. Roughly, the information they gave us was that there was a substantial drop in rates as the new regulations started to take place. In the US, there was a shakedown of about four years that saw many small companies disappear quickly. Many medium-sized companies fought to stay in business but disappeared, and the US lost on safety and environmental factors.

As far as I am concerned, one of the most devastating things was that 57 per cent of all unionized truck drivers lost their jobs in the US during the deregulation period. The strange thing was--and we did not make the point; these gentlemen did--that now the prices are right back up where they were and are increasing.

I do not know what the effect is, other than shaking out the entire industry and putting it in the hands of a few big companies. We have lost well-paid, organized workers. We have lost on safety and health measures. The prices for shipping, which were an initial incentive, are right back up. It seems to me the total deregulation in the US has been one gigantic con game. If that is the pattern--and this is in the testimony of officials of three major Canadian trucking companies--I think we should be aware of it.

Mr. Haggerty: I have said enough on this particular area. I have to be excused for about half an hour. I have a meeting with the deputy ministers.

Ms. Hart: May I add to that last comment? I understand their concern, because right now in Canada we have the worst of all worlds. We have effective deregulation and yet we have the trappings of reregulation. The companies are having to compete as if they are deregulated and yet the regulators are saying, "We are going to levy fines and do all the things that come from a regulatory system." We are betwixt and between, which is the worst of all worlds. I have a major concern about this and that is why I think we should be looking at it. That is only one sector, but I am sure you will be able to find the same thing in other sectors.

Mr. Mackenzie: It is a form of protectionism, but I know all of us, even I and my party, have some concern about it. By the same token, at least it is an effort to maintain some of what we have. If we went to total deregulation--that is not our argument, but I think it ties in to what we are

discussing--we would be literally at the mercy of what has happened in the US and the fears my party has about free trade would be exacerbated. I know a lot of other people feel the same way. Given the logistics of reaching US markets that in some cases are thousands of miles away, I do not think even the big Canadian companies that would be left would be able to compete. That would be one of the end results.

I do not know how you get around the problem my colleague has raised about having the worst of both worlds, but I am not sure the answer is to go exactly the same route as they have in the US, given what has happened there.

Mr. Chairman: I am trying to relate this argument to the trust companies.

Mr. Mackenzie: I think it is the concentration. I am not trying to get us side-tracked.

Mr. Chairman: I am hearing a general concern about concentration, which maybe we could meld into a concern about ownership, if we took a look at ownership restrictions. If we discussed that for a while, we might be able to come up with some kind of resolution that would express a generalized concern about concentration, without being too specific, and look at the question of ownership restrictions. Perhaps you want to take a minute to read through some of the comments on ownership restriction that were given to us. Mr. Bond can lead us through them.

Mr. Bond: The first recommendation we have under ownership restriction is from the Canadian Bankers' Association. It is to the effect that deposit-taking institutions should be subject to a 10 per cent ownership standard, which is, in effect, what banks are subject to.

They also suggest that widely held ownership is the most effective and cost-efficient way of limiting self-dealing abuses. The Canadian Bankers' Association further recommends that divestiture of closely held financial institutions is a definite option government has to regulate self-dealing abuses.

10:00

Mr. Taylor: Of course, the Canadian Bankers' Association is focusing on the trust companies.

Mr. Bond: Yes, that is right.

Mr. Chairman: Yes.

Mr. Mackenzie: Self-serving--

Mr. Chairman: They argue that their directors are beholden to no one particular shareholder and they have a certain purity.

Mr. Taylor: Sure.

Mr. Bond: On that line, the Canadian Bankers' Association argues that it is not the concentration of assets that is the problem. Basically that is what banks are; they are highly concentrated asset groups. Some figures suggest that they control 60 per cent of the financial market. They are saying the problem with concentration is not concentration of assets, it is

concentration of ownership and the best way of dealing with that is by ownership restrictions on trust companies to limit concentrated ownership.

The Consumers' Association of Canada made the point that with respect to ownership there should be a limit of share ownership position of any one individual in an Ontario trust company to 10 per cent. The trust companies should be given an interval for divestiture of, say, five years. They also made the recommendation to limit the share ownership position by individual or combined foreign owners in an Ontario financial institution to 25 per cent.

On the other side of the argument, you have the trust companies and individual conglomerates like Crownx Inc. Crownx recommends that all existing ownership restrictions should be dropped, including the adoption at all levels of government in Canada of a policy of national treatment of foreign-owned institutions. Crownx argues that it wants to compete on a level playing field at home and abroad; that is, a level playing field with the banks really.

The United Food and Commercial Workers International Union recommends that government extend the 10 per cent ownership rule to all financial institutions, phasing it in over a reasonable period of time. Again, the trust companies recommend that the government make no changes to the present structure; i.e., financial conglomerates should be allowed to exist in the financial service industry. They further recommend that the government not legislate ownership restrictions on loan and trust companies.

This was one of their major arguments. The presence of a major shareholder should not be restricted as it brings a higher level of accountability by management and therefore ensures the viability of the financial institution. They made the argument that a major shareholder would inject money into a troubled financial company and thus ensure the solvency of that company.

Mr. Mackenzie: I guess there are no Conrad Blacks in the trust company business.

Mr. Bond: Trilon Financial Corp., another large financial conglomerate owned by Edper Investments, recommends no ownership restrictions for domestic ownership of financial institutions.

I tried not to put too much duplication into this. I have left out a number of other trust companies we heard from who have made similar recommendations.

Trilon recommended that there should be no regulatory approvals for ownership.

Mr. Taylor: Did they not say there should be?

Mr. Bond: I am sorry, they recommended that there should be regulatory approvals. In fact, they supported the idea of a character fitness test for owners of financial institutions.

The Association of Canadian Financial Corporations made the point that ownership limits are inappropriate and that it should be possible for a financial institution to be wholly owned by one entity. It also made the point that it should not matter whether this entity is a Canadian domestic firm or a foreign firm. A number of its financial corporations are owned by US interests.

J. Stefan Dupré, former chairman of the Ontario Task Force on Financial Institutions, appeared before the committee. He recommended that a basic principle of public policy should be to encourage the development of widely held ownership of financial institutions. He also argued that a policy of forced divestiture should be kept alive as a potential threat that draws the attention of all the players.

He was particularly concerned by the commingling of industrial-financial sectors. An example is Imasco purchasing Genstar and thereby gaining control of Canada Trust. He was very concerned about a nonfinancial institution having control of a financial institution. His concern centred on possible self-dealing abuses, conflicts of interest and the whole idea of a self-financing ring.

He went on to make the point that in approving any applications that would entail ownership of a securities firm above the level of 10 per cent, Ontario regulatory authorities should be specifically directed to give preference to applications by financial institutions that are themselves widely held. Current changes in the securities law in Ontario will mean that foreign firms will be allowed to control up to 30 per cent of the securities industry in Canada. He specifically addressed himself to that problem and what he perceives as a problem.

Mr. Mackenzie: From my perspective, and I suspect that of my colleagues, the arguments for more widely held ownership and limiting the percentage of ownership make one hell of a lot of sense. It is one of the few effective tools in dealing with the problem. We hope that point of view is addressed in any committee report we finally come down with.

Mr. Chairman: Would you hazard a percentile as to maximum ownership?

Mr. Mackenzie: I am not sure the figure means that much, but I think the move to 35 per cent in the Blenkarn report was a mistake. I would stick to the 10 per cent. I sense that was Dupré's vision as well.

Mr. Chairman: I think Blenkarn said 30 per cent.

Mr. Mackenzie: Yes, 30 per cent.

Mr. Bond: May I put Blenkarn's recommendations on the record? These were made in June 1986. Three recommendations were proposed to deal with the ownership provisions. The first was that domestic asset size for holding companies and multiple holding companies under the same ownership control be determined by aggregating the total domestic assets of all affiliated financial institutions in which a 30 per cent greater ownership interest is held by the holding companies and related interests on a consolidated basis. That was a recommendation from the November 1985 Blenkarn report. The new recommendation says that nonfinancial institutions should be prohibited from owning directly, indirectly or beneficially more than 30 per cent of a financial affiliate.

Mr. Chairman: Mr. Mackenzie, did you say 10 per cent or are you not wedded to that?

Mr. Mackenzie: I know our members on the federal task force argued for the 10 per cent retention.

Mr. Chairman: Ms. Hart and Mr. Taylor were not here for all the deliberations so it is difficult to comment on that.

Ms. Hart: I can say I am not prepared to say 10 per cent now. I would really like to look at the Blenkarn report to see what went into it.

Mr. Chairman: Could that be a matter we might hold down until we hear from Mr. Blenkarn?

Ms. Hart: That sounds reasonable.

Mr. Mackenzie: Are we also intending to hear the arguments that were made in the dissenting report?

Mr. Chairman: That was mentioned. I am not sure who would be the logical person to be spokesperson.

Mr. Mackenzie: I would say Steven Langdon probably.

Mr. Chairman: Steven Langdon.

Mr. Bond: Mr. Langdon was not on the Blenkarn committee. It was Mr. Riis and another--

Mr. Mackenzie: Mr. Riis would be all right. I know Mr. Langdon has become the spokesman on the issue, but whoever was on the committee--

Mr. Bond: He was not on the committee, though.

Mr. Chairman: Mr. Riis would be more appropriate.

Mr. Bond: I think so. Just for the record, there are two other recommendations. Would you like to hear them?

Mr. Chairman: Go ahead.

Mr. Bond: These are amended recommendations of June 1986: "That all financial institutions be required to give a 30-day prenotification to NFAA or to the appropriate regulator of any direct or indirect related party transaction greater, in the aggregate, than \$1 million and report all transactions including those subject to prenotification, quarterly." That is related to the whole issue of controlling self-dealing by requiring prenotification.

The third recommendation is: "That a 30-day prenotification to NFAA or to the appropriate regulator, as the case may be required: (a) of any company declaring a special or extraordinary dividend in addition to regular, quarterly or annual dividends, and other dividends where amounts substantially exceed those paid out in preceding years; and (b) of any interaffiliated transaction involving the issuance or acceptance of common or preferred shares or subordinated debt." That has more to do with potential conflicts of interest within a branch conglomerate.

Mr. Taylor: What recommendations do you have pertaining to the regulator? This is often a problem if you have a goat looking after the cabbage patch, for instance.

Mr. Bond: We do have a section of this report that deals with reform

of regulation in the financial services on page 9. Mr. Dupré made the point that if you do not have a total ban on self-dealing, it really cannot be regulated because you cannot count on a regulator to be able to ferret out self-dealing. All the corporate governance and review committees in the world will not be able to deal with it.

Mr. Mackenzie: I do not think you have that down, but I recall his comments about it.

Mr. Bond: It is on page 6 under self-dealing. Stefan Dupré in his submission to the committee recommended "a total ban on self-dealing as the only way against such abuses. Business conduct review committees and government regulators are not proof against self-dealing abuses."

Mr. Chairman: Was that stronger than in his report?

Mr. Bond: The section that was stronger is the whole question of divestiture. Most committees, the task force, the green paper, the Blenkarn committee--the Blenkarn committee indirectly recommended divestiture for industrial firms controlling a financial institution, but no other report or committee has gone on to recommend divestiture. It is not a tradition in Canada to have forced divestiture, but Mr. Dupré recommended that it be kept as a threat.

Mr. Mackenzie: It is an effective tool now in the United States, is it not? At least, it is used, it seems.

Mr. Bond: It is used much more extensively. They have more of a history of trust-busting in the United States than we do here in Canada.

Mr. Chairman: I am sensing a feeling of concern in the area of ownership restriction, but I do not think I am sensing a committee that is actually ready to formulate a resolution yet. Perhaps we will be after we hear from the members of the federal committee.

What would be appropriate to look at now? Self-dealing?

Mr. Bond: I believe so.

Mr. Chairman: Take us for a walk through self-dealing.

Mr. Bond: Okay. The Canadian Bankers' Association made a strong case that the only way to deal with self-dealing was by a structural approach--that is, get it at the source--and that a policy of wide ownership is the most effective and cost-efficient way of limiting opportunities for self-dealing abuses.

The Consumers' Association of Canada argued that we should stiffen and enforce the legal penalties for self-dealing by officers and directors of deposit-taking financial institutions.

The United Food and Commercial Workers International Union recommends an outright ban on self-dealing or non-arm's-length transactions but fears it will create problems of monitoring and enforcement.

Dupré, in his Ontario Task Force on Financial Institutions, recommended a general ban on self-dealing. Interestingly, that was adopted by the Ministry

of Consumer and Commercial Relations in its new bill, the Loan and Trust Corporations Act, Bill 116. That bill has a recommendation for a general ban on self-dealing abuses. It is very strict that way. We heard from a number of submitters who were opposed to that general ban.

Interesting enough, Hal Jackman of E-L Financial is probably one of the few representatives of a large financial conglomerate--his conglomerate is strictly financial--who also recommends a general ban on self-dealing. He says that transactions between related parties and companies that are trustees of depositors' funds should be, if not prohibited, at least subject to some other form of prior regulatory approval.

Thus, Hal Jackman is in basic agreement with Bill 116. He goes on to say that if you are not going to legislate a general ban, then you should have at least some form of prior regulatory approval, such as that suggested in the Blenkarn report, where there would be prenotification legislation. For example, in any self-dealing within a conglomerate between, say, a parent corporation and an affiliate or between two affiliates, you would have to give notification if it involved more than \$1 million.

The Canadian Life and Health Insurance Association recommends a partial ban rather than a total ban on related-party transactions to prevent self-dealing abuses. It goes on to argue that a partial ban on related-party transactions should be combined with (a) a review of such transactions by independent and outside directors to ensure that they neither expose consumers and minority owners to abuse nor materially increase the risk of insolvency, and (b) prenotification with the regulatory authority of any sale or purchase of significant assets, e.g., real estate.

10:20

On the other hand, the Trust Companies Association of Canada counter-argues that the self-dealing rules should be stringent but should not involve a total ban on related-party transactions. The Trust Companies Association goes along with the whole idea that there should be a mix.

The Association of Canadian Financial Corporations argues that appropriate rules should be established setting out which non-arm's-length transactions are not to be permitted. For example, non-arm's-length transactions where no third party is disadvantaged should be permissible, whereas non-arm's-length transactions where a third party is disadvantaged should be banned. It goes on to say that any breach of the self-dealing rules should result in severe sanctions against the offending party.

Mr. Chairman: You mentioned Dupré earlier.

Mr. Bond: I mentioned that Dupré recommends a total ban on self-dealing. Basically, he made the argument that business conduct review committees, as suggested by the Royal Trust Co., were all very well and good and very important to the system and that the whole idea of independent, outside directors was also a very important control mechanism, but that none of them is proof against self-dealing abuses. There is no guarantee unless you have a total ban on related party transactions, and that is the only way to guarantee it.

Mr. Chairman: Is there any comment?

Mr. Mackenzie: It is fairly obvious that we lean to the total ban on self-dealing related transactions. I do not know how you are going to control the industry and make it fair without such a step. I thought the arguments made once again by Mr. Dupré were fairly effective with the committee.

Mr. Chairman: Would that mean an endorsement of Bill 116 in essence?

Mr. Bond: In so far as this is concerned, Bill 116 does recommend a general ban on self-dealing. In this regard, the Trust Companies Association and others argue that a total ban takes away from the harmless and productive benefits of networking and the whole idea of synergy, synergy being the result of combining distinct businesses or markets to achieve greater profits or market shares than the sum of individual businesses would be able to achieve.

The idea put forward by Mr. Cornelissen of Royal Trust, when he said that Royal Trust would be able to refer business to Royal LePage and Royal LePage could refer business to London Life, was the idea of a group of affiliated companies working together and assisting each other. But that may be hampered by any general ban on related-party transactions.

Mr. Chairman: It may or may not be a good thing.

Ms. Hart: Exactly. On that point, how does the ban on self-dealing prohibit one company from recommending business to another company?

Mr. Chairman: It does not prohibit it. It does not encourage it to the extent that it is encouraged now. As we saw in the evidence dealing with Royal Trust, for instance, there are commission incentives given to employees to deal with certain real estate companies, etc. Maybe that is not fair.

Mr. Ferraro: It might not necessarily be financial. There are, for example--

Mr. Chairman: They could be financial.

Mr. Ferraro: They could, but I suspect most of the time they are not. Where there are incentives--for example, if you work for Royal LePage Real Estate, you can get a pre-approved mortgage that same day, or it might make the difference in getting a mortgage on that property if it is the same company. It certainly does make a difference.

Mr. Bond: I should probably clarify it too. Direct networking and tied selling are concepts that are actually more related to conflicts of interest than they are to self-dealing. We also provide the members with a new and extended glossary that goes along with this. Self-dealing abuses include a broad range of activities, such as the buying and selling of assets between loan and trust companies and their major shareholders or associated companies, the payment of management fees to parent companies, excessive investment in real estate subsidiaries and other insider malfeasance.

One of the reasons that self-dealing is such a major problem is its close association with the great number of insolvencies among Canadian financial institutions since 1981. Slater said that since 1980 there have been 28 cases of severe difficulties or of failures because of fraud and self-dealing by owners and companies involved.

Mr. Mackenzie: One half of the 28 was what he said, but it is still an amazing figure.

Ms. Hart: Is that an opinion. I do not recall that from the Slater report. Is it backed up by the evidence?

Mr. Bond: Yes. Studies have been done that indicate it is, in approximately 50 per cent of the cases, one of the major reasons for the insolvency or the failure of the financial institution.

Mr. Chairman: Do I hear any arguments against a total ban on self-dealing?

Mr. Mackenzie: Not from here.

Mr. Chairman: We may have a consensus.

Mr. Foulds: I do want to point out that there is--and I do not say this in any provocative way--one party absent from the committee.

Mr. Cordiano: Which party is that?

Mr. Foulds: I would very much like to overlook that, but I--

Mr. Ferraro: Do you want to speak on their behalf?

Mr. Foulds: I certainly do not want to speak on their behalf. I endorse Mr. Mackenzie's remarks wholeheartedly.

Mr. Chairman: What we should do at this stage is adjourn and continue this debate at another time when we have the presence of all three parties, that is, next week at nine o'clock.

Mr. Foulds: I might even slip in at nine o'clock to call a quorum.

Ms. Hart: Some of us do not arrive until 9:20 a.m.

Mr. Chairman: I noticed your conversation with your constituency office was quite lengthy this morning. Mr. Foulds.

Mr. Foulds: I had other conversations.

Mr. Chairman: I am sure you did.

It should be noted as we adjourn this debate that at this point we have heard only arguments in favour of a total ban on self-dealing. We will open that for further discussion when we continue the argument, but I do sense a germ of a resolution in the works.

Clerk of the Committee: You actually have six, which is a majority.

Mr. Chairman: Yes, but we do not have a Tory, so I do not want to have a vote on it. Mr. Foulds's point is well taken. We should not have a resolution at this point.

We do have our guest with us now. Ms. Francis, would you like to come forward and take a seat at the table opposite me, perhaps one of the middle seats. We appreciate very much your coming here. You might be interested to know your book is an exhibit in our proceedings. We have all been reading it or have read it with great interest. It formed part of our debate earlier this morning.

10:30

I informed the committee that you were interested in discussing it and also some other matters you felt were not of a general interest and therefore were not included in the book. If you are prepared to open with a statement and then if you are prepared to entertain questions, we can proceed from there.

DIANE FRANCIS

Ms. Francis: The opening statement I will keep quite brief. Basically, my concern is the so-called fifth pillar. That concerns me as much as the four pillars. The fifth pillar I describe as the near-banks, the merchant banks.

One of the best examples I found of a real problem that may be facing us occurred this year when the Great Lakes Power group, for the third time, I might add--it had been done twice before--warehoused, briefly, stock which went from one affiliated company intended for the controlling shareholder of both Great Lakes Power and that affiliated company and thereby pocketed a very handsome commission for doing absolutely nothing at all.

What it amounted to was a wholesale price, a two-tier price, for shares to a controlling shareholder. In other words, the public paid a certain retail price for shares of this Brascan-affiliated company, and the controlling shareholder, through this warehousing business, via Great Lakes Power, being Brascan, will eventually pay a lesser price.

I brought this up in a column I wrote and someone brought it to the Ontario Securities Commission. The remark that came back to me was "Well, this is part of the changing nature of international financial markets."

That is nonsense, total bunk. That seems to be a catch-all on the part of the Ontario Securities Commission when problems arise. "Well, you know, things are different, but we are getting into the international big leagues," and so on.

This to me was just a straight-up situation of two-tier pricing of stocks and securities, which undermines the integrity of the entire public stock market system--and it was the third such incident.

As I say, the Great Lakes Power group is a merchant bank. It is what I call the fifth pillar. There are a number of other financial near-banks on which I think this committee should consider imposing self-dealing bans. I will just read from my book, on page 329. I did not go into any detail on this aspect, and of course the trust company problem is well written about and well-known.

"Self-dealing curbs should also be imposed on near-banks, such as merchant or investment banks, which raise their capital through stock markets, not deposits. Like real banks and trust companies, they should have a majority of outside directors on their boards, and they should not be permitted to make loans to affiliates or to a company over which they can exercise control. Most importantly, the definition of loans should also include debt instruments, such as preferred shares. The practice of lending money to affiliates is widespread in the Edper empire and it should cease because it has created unhealthy interdependencies as well as the potential for self-dealing conflicts."

I will talk about the Edper ethics committees and all that sort of thing later because I have some opinions about that.

Another self-dealing ban I do not think has been widely discussed in the press, although possibly it has been here, is mutual funds buying securities underwritten by a related person or company. That is going on. I cannot give you specific examples, but I am assured that is going on.

Another is investment advisers or management firms recommending the purchase of securities underwritten by a related person or company. I am not saying they do this, but I think most people know that Hume Publishing, the Moneyletter publisher, is owned by Trevor Eyton, and I do not know how many times they may have recommended companies on which he sits as a director or companies which are affiliated to Brascan, of which he is president.

Also, we see this problem happening with investment advisers who are consultants to brokerage firms that are doing underwritings and that are saying to the public in newsletters or are recommending a stock in other organs and are not necessarily disclosing their conflict.

Another would be a ban on life or casualty insurers underwriting coverage for a related person. This goes on all the time. The Edper group calls this synergism. I call it trouble, because it is potentially trouble.

Another would be a ban on securities underwriters warehousing stock with related persons or companies. That is addressing what I mentioned before, the so-called fifth pillar, where they warehouse stocks and take a cut in the price charged to the controlling shareholder in return for just parking it there and taking no risk.

There are other self-dealing problems. The conclusions I reached were that cross-ownership should not be allowed; that is, lenders and borrowers should not be the same entities. I point to several examples such as the Toronto-Dominion Bank, which owns 40 per cent of a real estate development company. Of course, that is the Bank Act. They are getting around it by owning 40 per cent of its shares but five per cent of its voting shares. There are a number of other little tricks of the trade and trust companies are allowed to own real estate companies. We saw the problems that occurred with Peter Pocklington and Leonard Rosenberg.

Basically, these are some of the areas that have not been actually explored in any detail. It bothers me that the public often does not realize there are conflicts of interest in terms of investment advisers. Life and casualty insurers underwriting coverage for a related person can cause a lot of problems. I do not have a lot of specific examples of this. Hume Publishing is the only one I can think of. I do not know whether that is disclosed or whether it ever deals with recommendations concerning the Brascan group of companies through the Moneyletter.

The other recommendation I make in the book is that trust companies should be divested from family ownership over the course of 10 to 15 years. They should be divorced from the economy asset ownership and should be allowed to become banks eventually to give the banks more competition. I think the Big Five have too great a stranglehold on the economy.

Those are my opening remarks. Does anyone have any questions?

Mr. Ferraro: Ms. Francis, I enjoyed your book very much. I do not

think Peter Newman can tie your shoes as far as enjoyable reading is concerned. I say that with no ulterior motives. Incidentally, I have not read the whole book yet. I am part way through it. It is much easier reading, for me anyway. You certainly stimulate the mind.

You make the point right off the bat about directors, that a majority in financial institutions should be outside directors. How would you appoint those directors? Who would recommend them? My fear is the obvious one, that many times if I own a company and I cannot apply and the board has to appoint a director, I would make a recommendation, probably of a pal of mine. How would you make that determination?

Ms. Francis: One of the things in the Brascan group is cumulative voting, which means that anyone can put his name forward if he is a bona fide, beneficial owner of the shares. Rather than than voting for a slate, people can throw their vote behind a specific director, which often allows for a member of the public. I know one of the dangers, and the directors will argue it, "What if we get some little old lady who does not understand a thing about the company and how it runs representing us on the board of directors?" They take their money all too readily, if they are little old ladies who do not understand a thing about the business, so why should they not sit on the board if they have won the seat?

You could not have random selection but cumulative voting is a very important thing. You will not see any old person put his name forward because there would be a process of recommendation. You would probably get mostly lawyers representing large shareholders who do not have the time or inclination to sit on a board themselves.

Mr. Ferraro: I am going to jump all over the place here.

Mr. Chairman: Before he jumps, as a supplementary to that question, you mentioned something about business conduct review committees.

Ms. Francis: Yes. As a portfolio manager said to me recently: "Is it not a joke? Jean Beliveau was a great hockey player but he is sitting on one of Brascan's boards on the ethics committee. What does he know about ethics? He has a conflict of interest." The ethics committees are drawn from the very boards that are all pals anyway and were appointed by one another. They are not truly outside committees. He was laughingly saying: "I would trust my team with Jean Beliveau and his skating ability but not a major corporation. He is a hockey player. What the hell does he know about ethics?"

Mr. Foulds: He is a pretty good stickhandler.

10:40

Ms. Francis: Yes, he is a stickhandler. I think the guys who appointed him are better stickhandlers. I just question the fact that they are not truly outside.

I wrote a year ago about another one which is now the subject of litigation, Fraser Inc., where they had their two so-called outside directors negotiate a buyout by Noranda of Fraser shares. Noranda owned about 68 per cent and wanted to buy the rest, so it made an offer. Most of the people on Fraser's board were officers, but there were three or four so-called outside directors nominated by the controlling shareholder. These people went and negotiated with the same controlling shareholder what price to get for the shares.

That is not an outside director. To me, an outside director is someone who is not paid a consultancy fee, legal fee, accounting fee or any other kind of fee. These outside directors are often doing that. I do not see why it should be intimidating for a board of directors to have just one of the so-called great unwashed rank and file sitting on the board. Perhaps it would be good for them. I am sure it would be. He would ask questions.

Mr. Taylor: Even a hockey player.

Ms. Francis: Even a hockey player; but he was appointed by the controlling shareholder.

Mr. Chairman: That was helpful.

Mr. Ferraro: Generally speaking, on the idea of concentration, consumers' groups and other groups say that the more competition you have, the greater the benefit to the consumer. I do not have any real problem with that. Financial institutions, particularly trust companies, argue that big is not always bad and that, for all the reasons you have heard during the past, the consumer has benefited. Certainly their argument that trust companies have been a lot more competitive recently is true to some extent.

Are you unequivocally sure that the concentration we have in our financial industry in Canada today is either negative or positive towards the consumer? In other words, is concentration, to the degree we have had it today, a negative factor or do you envisage it as a positive factor? If one or the other, do you see it changing in the near future?

Ms. Francis: It depends on how you define concentration. In financial institutions, the concentration of power that is most troublesome to me is that of the chartered banks. You have 80 per cent of deposits in the Big Five. I think this is translated into a number of abuses or perceived abuses to the consumer; that is, the guy who borrows money. I have said many times what bothers me about the banks is that they have the patience of Job when it comes to Turbo and Dome, but when it is a small Ontario manufacturer, they pull the plug.

They will often stonewall someone asking for credit information about a client, even in the light of knowing that they are going to pull the plug on the client or that there is a red-alert problem. What has gone on a lot is that the client will boost up its inventory, the bank moves in, the inventory is lost to the bank and the small supplier is out. There is a lot of need for a change to the Bank Act, but that is not within your purview.

Mr. Ferraro: That is why I am particularly interested in your comments with regard to the trust companies.

Ms. Francis: We have a lot of trust companies and we have a lively, more competitive marketplace as a result. What bothers me is what happened in the Leonard Rosenberg case and in the Peter Pocklington case, where they could sell real economy assets to something.

Mr. Ferraro: Is there any magic in the 10 per cent limitation? Some individuals and groups have advocated that it go up to 20 per cent or 25 per cent. Is there any magic in that regard?

Ms. Francis: The Blenkarn committee made a very creative recommendation; that is, it predicated it on the amount of assets. It was a

falling amount. Was it not down to 10 per cent for anything the size of Canada Trustco and up?

Mr. Ferraro: Yes.

Ms. Francis: Some people would put those thresholds lower than the Blenkarn committee did, but I thought that was an interesting approach, a very creative approach. My opinion is, as I say in the book, that if 10 per cent is wise for banks--and I believe it is--then 10 per cent is wise for trust companies. There should not be any difference. They are handling other people's money, insured deposits by the taxpayer. What is the difference? I would open it up to the extent where a trust company could do banking functions and a bank could do trust company functions. I hope we would then end up with 10 major chartered bank players instead of just five or six.

Mr. Ferraro: I agree with you. I find that very interesting, but as far as the average consumer is concerned today, there is not a hell of a lot of difference between a trust company and a bank. Do you agree with that?

Ms. Francis: No.

Mr. Charirman: You are not in agreement.

Ms. Francis: No, I agree.

Mr. Ferraro : For the average person, yes. Obviously, when you compare all the other financial institutions with banks, they are minuscule, to say the least; but do you see any significant merit in increasing the role of credit unions?

Ms. Francis: That is troublesome. You can see what has happened throughout the country, but the best organization is the Desjardins movement in Quebec, which grew out of the Roman Catholic parishes. Few people realize it is the sixth-largest financial institution in Canada. It is as large as the Toronto-Dominion Bank.

Mr. Ferraro: Is it the caisses populaires?

Ms. Francis: Caisses populaires. I think they have 2,400 caisses populaires throughout the province, but they are highly controlled by a centralized group. Therefore, they are watched on mismatch of assets; their management is watched very carefully; the quality of their loan portfolio is scrutinized on a regular basis. There is a two-layered organization. Each caisse populaire belongs to a regional, and there are 12 regionals in Quebec. The 12 regionals, in turn, belong to the Desjardins movement, which is operated out of Quebec City.

During the period of high interest rates in 1981 and 1982, they had 200 of their group in major trouble, but they were able to watch the situation, right the ship and bail out, as opposed to what has happened in Alberta, where they are throwing more and more money at an increasing problem.

Unit banking has its value, but there have to be controls, and the Desjardins movement has very good controls. By the way, it wants to be a chartered bank. I understand it has just applied to become one.

Mr. Ferraro: I have one last question. I am interested in your reaction to the almost hypocritical perception in the federal government

concerned about concentration and so forth coupled with the fact it has just allowed Lloyd's to take over one of our banks.

First, do you see that as hypocritical to some degree? Do you want to comment? More important, do you encourage Canadian ownership of our banks or do you encourage foreign ownership of banks or financial institutions to get more competition?

Ms. Francis: The foreign ownership question is troublesome. I do not see that as contradictory, by the way. The Irving bank decision did not fly in the face of concern about concentration, because it really will not increase concentration at all. It is just replacing one owner with another, and it was a small player who was in terrible trouble. Thus, I do not see that as contradictory.

However, I do think there is some trouble with foreign ownership. It has to be gradually and carefully phased in, just because of the size of the players outside the country who could come in and gobble up our companies.

Mr. Ferraro: Do Canadians have enough guts?

Ms. Francis: On the other hand, in the absence of any decent antitrust or competition laws, we have probably had to protect ourselves from foreign investment more than we would otherwise need to do. For instance, in the oil industry, it has never made sense to me to have a national energy plan to Canadianize an industry that is a partnership between the people of Canada, who own all the subsurface rights. The ownership of the resource is ours already. Why do we have to buy it twice? All that money went out of the country.

The oil business is highly regulated, as is the financial institutions business. They tell you how much oil to produce, what kind, where to sell it, whom to sell it to, at what price and the whole thing; it is completely controlled. Thus, it was always a very controlled industry and it was already a Canadianized industry. I do not know why we did it twice. That caused a lot of trouble.

Similarly with financial institutions, if you have sufficient controls and if you have good antitrust laws that prevent anybody from turning into a monopolist, I am not bothered by the ownership.

Mr. Ferraro: Thank you.

10:50

Ms. Hart: Your opening statements had to do with Great Lakes Power, I believe, and you went through it so fast that I did not catch it. Perhaps it is because I have not read your book yet. Can you give it to me a little more slowly?

Ms. Francis: It is a really sophisticated deal. Basically, it was the third of its kind. The Great Lakes group participated in an underwriting for a Brascan-affiliated company. I think it was Brascan itself; yes, it was Brascan shares. They joined with four other investment bankers. Eventually they earned an underwriting commission even though most of the shares were committed to their controlling shareholder, which is indirectly Brascan and Edper. In other words, it amounted to a discount on the price paid eventually by that controlling shareholder.

The reason it upset me--and a lot of people in the investment community are upset about this--is that it amounts to two-tier pricing. With the fact that we have, out of the 400 largest public companies in Canada, 374 with a major controlling shareholder, if more and more of the merchant banking middlemen are set up by more and more controlling shareholders, you could end up with a completely two-tiered pricing system. You and I, the public, will pay retail and they get it wholesale. It is not right.

They made some arguments about how they were warehousing it and so on, but when I interviewed Mr. Eyton, he did not deny that the beneficial owner eventually was intended to be Brascan and the Bronfman family. In that case, why the warehousing? So they could make a few more points on the way? The motivation I can see for doing this is not only does it save the controlling shareholder money in the end, but it gives the Great Lakes group an opportunity to earn a profit and they want to take it public.

Ms. Hart: The other thing we sort of glossed over on the way through was mutual funds purchasing futures. I did not catch that at all.

Ms. Francis: I will have to read what is in the book. I am sorry I do not have any examples.

I was saying some of the bans we should look at would be mutual funds buying securities underwritten by a related person or company. I can think of a number: the McCutcheon brothers run mutual funds and they own financial institutions; the Webster family; Prenor; Bolton, Tremblay and a few others like that.

I am just trying to heighten the consciousness, because self-dealing takes many forms in financial institutions. It is not just the Leonard Rosenberg type.

Ms. Hart: I am trying to come to grips with some of the examples of self-dealing. I am new to this committee. One other synergism, I think you called it--

The Vice-Chairman: Excuse me, if I may interject here, Mr. Bond has pointed out for the benefit of the committee that merchant banks operate in the exempt market. In the glossary, it indicates to some degree what an exempt market is and it applies essentially in the context I believe Ms. Francis is talking about, the securities above \$97,000 in value.

Ms. Hart: I understand.

You talked about life insurance and casualty insurance being written on related companies. Can you tell me the ills you were directing your mind to?

Ms. Francis: They could be overinsured or underinsured, depending on which way they wanted to play it. In other words, the insurance company is supposed to go in and estimate what a risk is and then come up with the premium required. It could go high or low, if it were both sides of the same beneficial owner in the end. It could either keep the premium income lower than it should be, considering the risk, to help out the company that is being insured, or charge too high a premium to the company it is insuring because they are affiliated. One of two things can happen. It is a very judgemental thing.

Ms. Hart: You talked about real economy assets. What do you mean by that?

Ms. Francis: Nonfinancial, such as real estate or nonfinancial manufacturing.

Mr. Foulds: We have heard a lot about the changing nature of the international financial world and institutions and the need for Canada to compete in that market. We have heard arguments that you need to be big and concentrated to compete. What is your argument against that? Do you have one?

Ms. Francis: Not really. I think if it can be proven that the market in which they operate has to be big, they have to be big. I try to differentiate in my book that I am not against big. For instance, Northern Telecom, Alcan or Noranda have to be enormous, but what I am saying is that Noranda does not have to be owned by a holding company that knows nothing about mining and that kind of conglomeration. However, they have to be if they are playing on a world stage in a specific type of market, and to a certain extent our brokerage firms are playing on a world stage.

The other thing is that, even here at home, the Brascan-Edper group of near-banks and financial groups have perhaps three times the capital of the whole of Bay Street combined. Bay Street is very undercapitalized. We have only one player in this country, the Brascan empire that has three times its capital, in Great Lakes Power, Trilon--and I am not talking about the assets they are managing, I am talking about Royal Trustco's, Trilon's and London Life's capital and all the other companies they control. It is triple Bay Street's. That is why we are seeing them go public and merging, because they know they are badly undercapitalized. Even within our country, they are too small, and if they are playing on a world stage, they are obviously too small.

Mr. Foulds: For the record, can you clarify for us who is undercapitalized?

Ms. Francis: Bay Street, as a whole.

Mr. Foulds: What do you mean by Bay Street?

Ms. Francis: The brokerage community.

Mr. Foulds: That gets me to a question I was going to ask later, so I may as well ask it now.

Ms. Francis: The reason I say they are undercapitalized is that if they had more capital, they could take bigger pieces of big international deals.

Mr. Foulds: Right.

Ms. Francis: Right now, they are taking only tiny pieces of big international deals.

Mr. Foulds: If I remember correctly, one of the things you said in your presentation is that you feel the trust companies should be divested of family holdings over a 10-year to 15-year period. Who is going to buy?

Ms. Francis: The public. Sell the shares to the public.

Mr. Foulds: Historically in Canada, that has not happened.

Ms. Francis: The public owns the banks and the nonmutual insurance companies.

Mr. Foulds: If you have ownership in that sense--you might say to us, the public owns the banks. As a politician, I would say the public perception is that it sure as hell does not control them. How could we, as a committee, make some useful recommendations not merely about ownership but also about control?

Ms. Francis: First, to a certain extent, shareholders do control banks. It is very indirect--by buying or selling their shares, by the price of the shares. A poor performance is going to result in a poor stock price. The market works very well that way. The banks are also held by professional investors. The large institutions own their shares and, believe me, they beat them about the head in private when they do not perform the way they should. You have a very nice check and balance there on the financial performance side.

On the regulatory side, we still have problems. The federal government is not doing its job. I am not sure it is doing its job yet. What happened happened. Those two banks were widely held, and their shareholders were very passive. Some of their big shareholders were very passive, and their boards were very passive.

I think the important thing is that the regulatory framework has to be beefed up and improved, there should be better auditing--a few lawsuits will smarten up the accounting profession--and the directors should change on banks. I do not think they should have customers sitting on their boards. They should have shareholders' representatives, portfolio managers, more service--

Mr. Ferraro: Depositors?

Ms. Francis: Sure.

Interjection: Government appointees?

Ms. Francis: I guess that would be one way to have a window on what they are doing. Yes, why not? Their deposits are insured. That is a good point. I have not thought that through, but why not?

11:00

Mr. Foulds: That leads to another point I wanted to raise, and that is the question of outside directors. Do you have any advice on how one could devise a mechanism to get genuine, independent outside directors appointed?

Ms. Francis: Yes.

Mr. Foulds: We understand the principle and we agree with it, but how the heck do you do it?

Ms. Francis: There is nothing wrong with board-generated nominees or management-generated nominees, but where I have a problem with outside is that I think most outside directors are not outside directors. Jack Gallagher was not an outside director at the Canadian Imperial Bank of Commerce; his company owed it \$1.5 billion. He cannot, to me, be described as an outside director. He certainly was not looking after the shareholders, necessarily, but he was looking after Dome.

Similarly, you will see characterized on these boards the so-called outside director who is maybe a consultant--an engineering consultant, if it is an oil company--or he is a lawyer earning fees, which is disclosed at the end of the year, but none the less, he is a supplier.

It is fine to have them nominate people with whom they can get along and with whom they know there is a level of sophistication in dealing with board matters, but the secret lies in the definition of what an outside director is. I think suppliers, customers, officers, whoever they are, are not outside directors.

Mr. Foulds: Is there enough capital lying around out there to buy into trust companies if the huge, controlling family interests now are eased out of the picture?

Ms. Francis: You are better off asking a pension portfolio manager or an investment banker, but a quality investment is always going to get investors. As I pointed out in my book, the game of Monopoly has gone on so long that we have only Boardwalk and Park Place left and if they can come up with some more squares, I am sure they will.

Remember, we have had this problem that the pension capital has to remain inside the country. It is a matter of searching for investment, so it seems self-evident to me that if it was quality investment, there would be money there for it. However, I am not the expert.

Mr. Foulds: The caisse populaire movement is successful in Quebec. Surely that has something to do with the conditions and the cultural background. It has always been a puzzle to me, for example, that by and large the credit union movement in Ontario has not been as successful as that in Quebec, or actually in Saskatchewan, in the Prairies. There is something collective in their consciousness that is not in Ontario's consciousness.

Ms. Francis: Yes, to a great extent. I call it people's capitalism in my book. Basically, it is a fight against what they feel is a concentration of power in Toronto and Montreal banking circles. They have always felt very alienated and they have always felt that when Joe Smith loses his farm down the road it is because of one of those big, bad Toronto banks and so we will do something about it and get organized.

The caisse populaire movement is much the same way. It was the francophone farmer who was upset by the Montreal bankers and he cuts a better deal. It really does make a lot of sense. I have forgotten the exact figures, but they have something like 40 per cent of the personal loans business and 50 per cent of the mortgage business in the whole of Quebec.

Mr. Mackenzie: May I have a supplementary?

Mr. Chairman: Sure.

Mr. Mackenzie: Specifically, I have been told by my friends and relatives in Quebec that, in terms of the small business community or somebody with a really good entrepreneurial idea, they have found it easier to deal with caisses populaires than they have with the banks and that has resulted in some additional successes. Would that be your perception or do you have any information that would back that up?

Ms. Francis: I do not have any actual information, but that is my perception. As I said, they are very successful. They have an enormous chunk of the market share.

The other thing, too, that is interesting is that they are very innovative. They were the first in this country with the weekly mortgage

payoff. They were the first in this country with an automated teller system. They do move fast. They are entrepreneurial in and of themselves

Mr. Foulds: On a different topic, you also mentioned antitrust laws. In your view, we do not have any of any value in this country.

Ms. Francis: We had not until June. A new one was proclaimed in June, but it has not been tested yet and it does not address the concentration that has already taken place.

Mr. Foulds: I presume we will not know how effective that is until we have a few cases, if we have any.

Ms. Francis: No, but the new combines director is one of the most powerful civil servants in Ottawa. Banks are now under the purview of the new combines act, as are crown corporations for the first time. The Irving bank would have been vetted by him. He would have been entitled to see that deal 30 to 45 days before it happened and to determine whether it would affect concentration of the marketplace.

There are two kinds of concentration--the aggregate and in the marketplace. As I was saying to you, it is not going to adversely affect competition in that marketplace because it is just replacing ownership. It may eventually; it may grow to be a monster, but that would be only if they are successful.

Mr. Chairman: What is the example you are using there?

Ms. Francis: The Irving bank.

Mr. Chairman: The Irving bank? He owns New Brunswick; does he own a bank, too?

Ms. Francis: No. I am sorry, this is Lloyd's Bank.

Mr. Chairman: Oh, Lloyd's Bank.

Mr. Chairman: Under the new act, he would have had 45 days' notice. Is that what you said?

Ms. Francis: Yes. He gets 30 days' notice and he can ask for an extension of 15 days. He sees every large takeover deal that will happen and, if he does not like it, he goes to the party that wants to make the takeover. This contravenes securities laws, by the way, because it means any major takeover tender offer has to be seen by Ottawa before it is made public. I know the exchange is very upset and has written to Ottawa about it. But anyway, he will see it.

If he thinks it will adversely affect competition in a given market or markets, then he will take it to a merger tribunal, unless the party wants to back off and change the structure of the deal. He takes it before a merger tribunal, which has not been struck yet. It will be composed of federal judges and businessmen. This will be a session behind closed doors. He acts like a crown attorney saying, "This deal should not go through," and they decide there is no appeal.

For instance, the Petro-Canada takeover of Gulf gas stations in Ontario and western Canada would never have been allowed under the new act, or it

would have been changed. They would have had to divest to an independent some of the stations they had just purchased, very much like the Federal Trade Commission in the US.

Mr. Chairman: Are you satisfied with the new act?

Ms. Francis: It has not been tested yet. I asked, for instance, what would have been different in the last year? The combines director used the Petro-Canada example and said, "That deal would never have been allowed because it gave Petro-Canada a 33 per cent market share in all provinces west of Quebec."

Mr. Ferraro: They might have made an exemption in that case.

Ms. Francis: I doubt it. He is quite autonomous. He is a seven-year appointment by the Privy Council and cannot be removed, and the merger tribunal cannot be appealed; its decision is final.

Mr. Chairman: Mr. Bond suggests that the prenotification part of Bill C-91 has not yet been proclaimed.

Ms. Francis: That part has not?

Mr. Bond: The prenotification provisions of Bill C-91 have not been proclaimed into law yet. The other parts of Bill C-91 are law now.

Ms. Francis: I did not know that.

Mr. Bond: The industry is given time to adjust to these new provisions. They are due to be proclaimed in early 1987.

Ms. Francis: So it will come into effect in early 1987.

Mr. Bond: It will come into effect in 1987.

Mr. Chairman: You are not suggesting anything that you would have liked to have seen in that legislation that is not there. You are saying we should wait and have it tested.

Ms. Francis: No. I feel strongly that the legislation should have given him the power to look at existing markets and unravel some of the concentration that has already taken place; but that would be troublesome. It is retroactivity and is troublesome. I realize that.

Mr. Ferraro: Ms. Francis, could you just elaborate for me your thoughts on ownership versus voting rights?

Ms. Francis: This is troublesome. It is a real problem. We have allowed voting, nonvoting shares, restricted shares and that is very upsetting to a lot of people. The reason for that is, in the past, family ownership or ownership of any kind has been diluted. When those people do not manage their assets properly, it then goes into the rightful hands of someone else. However, with the restricted share situation, large numbers of assets can be held by a family that is incompetent, indifferent and all types of things, with a mere toehold of capital put up, and the public is putting up the rest.

I have a figure in my book on the number of restricted share issues on the Toronto Stock Exchange. It has tripled since 1978 and is now up to about 180. I think it is a very bad development. Take the case of the McCutcheon brothers who control Traders Group Ltd., a trust company and so on. With a \$10-million investment, they control \$3 billion or \$4 billion in financial assets. They have a mere toehold, and this is through a structure that is a holding company structure. Even my company, Torstar Corp., has restricted shares. I think it is a very bad development.

Mr. Ferraro: Do you think they should be geared--

Ms. Francis: Have you talked to Stephen Jarislowsky or have you considered doing that? He is probably the most astute and certainly the most powerful investor in Canada. He manages pension funds that total \$5 billion or \$6 billion and advises those who manage billions more. He is very astute on whether sufficient capital could be raised for trust companies. His views would be wise to solicit. He is very much against restricted shares.

Mr. Ferraro: The last thing I want to say, just for your edification and information, is that we asked for representation from the merchant bankers' sector. We did not get any representation. We got a brief submitted by the Great Lakes Power group that said nothing. I do not think we have it here, though.

Mr. Chairman: I am sorry.

Mr. Ferraro: Does the committee have that brief?

Mr. Bond: I think you are referring to that fact that we originally asked Hees International to appear before the committee.

Mr. Chairman: Yes. We asked it to appear. It privately convinced the chairman that its views would be brought to the attention of the committee by Trilon. We heard from Trilon. There was no real input regarding merchant banks and we did not ask questions concerning merchant banks. We are grateful that you are bringing this to our attention. It also gave us a brief prepared by the Great Lakes Power group which I do not think talked about that, either.

Mr. Bond: No. It addressed the issues of the business climate review committees and outside directors and the whole system that Royal Trust talked about in terms of self-regulation of the industry.

Ms. Francis: Getting back to the restricted share issue as well, another good example is Frank Stronach, who has 500 votes for every share. What if Frank Stronach stops being a good manager and is not an astute businessman any longer or something happens to his faculties? What happens to that company?

Mr. Ferraro: And all the government loans?

Ms. Francis: Yes. Michael DeGroote of Laidlaw Transportation is another one. He is a very brilliant businessman. He sold his common shares for \$36 million last year and he still controls the company with 50.1 per cent of the voting shares. There are lots and lots of examples. What if he loses interest or what if his kids are stupid? Normally, in the course of events, a company's fortunes would falter and they would be diluted or taken over by someone who could handle the assets better. I think we are asking for trouble down the road if we allow economic entities to be controlled by people who may not be competent.

Mr. Ferraro: I have one last question. I agree with you, I think it is confusing and counterproductive to some degree as far as the consumer is concerned to have trust companies and banks. Inevitably, I think they should be one and the same, although it will take time.

What do you think are the problems, aside from lobbying from both sectors--particularly the banks--against it? What inherent problems would the government have doing that? It would be dealing with the provincial or the federal level, I suspect.

Ms. Francis: Yes, because some trust companies are federal and some are provincial.

Mr. Ferraro: Yes.

Ms. Francis: There has to be a negotiation with--

Mr. Ferraro: Would we, in effect, then lose control over the trust companies? Can you see the provincial government somehow keeping a finger in the pie? Or should we? Really what you are talking about is transferring the legitimate responsibility for the trust companies, which at present is provincial, to the federal level.

Ms. Francis: Yes.

Mr. Ferraro: Is that good or bad?

Ms. Francis: I think it is good.

Mr. Ferraro: We do not know what we are doing, obviously.

Ms. Francis: No, that is not what I mean. Ontario might, but does New Brunswick or Alberta, or does Ontario occasionally?

Mr. Ferraro: I was being facetious, or trying to be.

Ms. Francis: I am in favour of a federal securities and exchange commission, but I am sure that is not popular in a province. They can just have the overview and the staff and beef it up, potentially. They did not do a very good job on the banking side.

Mr. Haggerty: I was concerned about the Loan and Trust Corporations Act. There is a comment that Royal Trust "recommends restrictions in Bill 116 (e.g. ban on self-dealing) on how trust companies can use discretionary fiduciary or pension investments be removed from the proposed bill." What is your opinion on that?

Ms. Francis: On the trustee accounts?

Mr. Haggerty: On removing the trustee accounts and pension investments from the Loan and Trust Corporations Act.

Ms. Francis: I am not sure I understand the implications.

Mr. Haggerty: The question is that they want to have complete control over the pension investments; in other words, they do not want it included in any bill. Do you think there should be some government controls and that it should remain in this area of government control?

Ms. Francis: I think there should be, and that is another reason. I have an example in the book, remember, with the Union Enterprises battle. Hal Jackman, whom I respect quite a bit, is a very moral, ethical businessman. None the less, he decided to tender all of National Victoria and Grey's trustee accounts for cash on a Sunday night, without a committee, which is supposed to be in place. It was a good example of the owner, the controlling shareholder of a trust company, actually controlling trustee accounts. That is a problem with family ownership. I know that does not address your question, necessarily.

Mr. Haggerty: It does, I think, to a point. They still want complete control of everything, as you are saying about Mr. Jackman.

Ms. Francis: They already have it.

Mr. Haggerty: Somebody else can come in on a Sunday night and say, "This is what we are going to do tomorrow," and sell it without any divested rights by the pension investments or somebody--

Ms. Francis: That is it. I also interviewed Senator Ian Sinclair, formerly chairman of Canadian Pacific, who said he was very much against cross-ownership, financial and nonfinancial. He said, "You ask Paul Desmarais how many Canadian Pacific shares he owns and he will tell you 12 per cent." He said he owned only four per cent. It was in the trustee accounts of Montreal Trust and his other companies that the other eight per cent was held, but he considered that his property.

Mr. Haggerty: It did not belong to him at all, in other words.

You talked about deposit insurance and you indicated it was doing an excellent job of protecting the depositors. What are your feelings on the information I have here that there is a deficit of \$1.2 billion at present? How sound is that?

Ms. Francis: In the Canada Deposit Insurance Corp.?

Mr. Haggerty: Yes.

Ms. Francis: That is the national deficit.

Mr. Haggerty: Yes.

Ms. Francis: They are working their way through a bunch of failures.

Mr. Haggerty: Where do they generate the income from to pay off that large debt?

Ms. Francis: They are going to levy all of the financial institutions on the basis of the amount of deposits.

Mr. Haggerty: That would include all the financial institutions.

Ms. Francis: Public deposit-taking institutions will be levied in proportion to their piece of the overall pie. The levy will fall mostly upon the shoulders of the big five or six banks.

Mr. Ferraro: It will be the consumers who pay it out of their pockets.

Ms. Francis: They will have to pass it along in the cost of their services. Or their shareholders will, but I do not think their shareholders will.

Mr. Haggerty: Yes, but there are difficulties. If you look at the US and its financial institutions, there could be more problems here. You could have a greater run on the CDIC.

11:20

Ms. Francis: That is another thing concerning our rules. We do not have the contingency funds for our financial institutions in any near proportion to what they have in the US. As to brokerage funds, for instance, the brokerage industry in Canada has a national contingency fund. First Commonwealth in Edmonton was just closed and five people were arrested for fraud or near fraud or something. There is going to be a huge bill that I am told could possibly wipe out half the contingency fund, although they do not yet know.

There is a lot of talk in the brokerage industry about boosting that national contingency fund. The life insurance people do not even have insurance for themselves. The casualty people do not. We do not seem to have a pool of funds for any other banking or trust company problems. In the US, the funds are much higher; of course, it has many more bank failures, almost all due to self-dealing. That is another thing. I do not know whether it is within your committee's purview to look at some of them.

Mr. Haggerty: Self-dealing is.

Ms. Francis: Looking at the backstopping for some of the financial institutions, I do not think it is sufficient. Brokerage firms are merging and so on. If Dominion Securities had a problem such as First Commonwealth had--not that it could happen--that would be about 40 per cent of the capital of the whole brokerage industry. I do not know how the rest would pick up the bag. They are not putting it aside.

Mr. Foulds: Although you advocate breaking up the huge conglomerations and concentrations by families, particularly in the financial sector, do you see it happening? Do you see it as being possible?

Ms. Francis: Not really. I want to correct the way you phrased that question. I am not in favour of breaking up all the concentration in the country. For instance, I am in favour of trust companies being divested because they are financial institutions and I believe the 10 per cent rule is wise, but that does not extend to other insurance companies or mutual funds or that sort of thing.

Mr. Foulds: You are talking only about trust companies.

Ms. Francis: In terms of forcing a divestiture. I also do not like cross-ownership. It is troublesome.

Mr. Foulds: You use that phrase a lot. What do you mean by it?

Ms. Francis: Someone who is both a lender and a borrower.

Mr. Foulds: You use the word "troublesome" a lot. What do you mean by that?

Mr. Taylor: The New Democratic Party.

Mr. Foulds: Only to you, Mr. Taylor. What do you mean when you say "troublesome" in the instance of cross-ownership?

Ms. Francis: It can hypothetically cause problems, troubles. We have two good examples of cross-ownership. Peter Pocklington sells a pig in a poke to his trust company and it goes bankrupt. Leonard Rosenberg does a little fiddling and diddling.

Mr. Foulds: How are the book sales going?

Ms. Francis: Great. I hope to be a conglomerate.

Mr. Ferraro: I have a quick question. I am not sure how intelligent it is but I will ask it anyway. As a consumer, there is a little idiosyncrasy. Inevitably a financial institution will put costs back to me when there is a loss situation because of a bad move by a bank or financial institution in Canada. It bothers me twice as much when I have to pay for the sins of a financial institution making a loan to Poland or Mexico. It is defaulting, hypothetically. Not that any loss is good, but at least I have a perception that we have more control over something that is in Canada. Should there be more guarantees from the International Monetary Fund when we go into other countries or should there be restrictions on the degree of foreign investment by financial institutions?

Ms. Francis: My understanding is that the loans made in other currencies are made from deposits in those other currencies, so that the--

Mr. Ferraro: But that was not mine.

Ms. Francis: Oh yes. The only thing that is affected is the shareholder's equity of a bank, not the depositors in Canada. Not the depositors but the shareholders of the bank would be affected by a bad loan to Mexico.

Mr. Ferraro: I was under the impression that at various times the federal government would encourage financial institutions, even on a joint venture, to get in there and say, "Here it is, folks," but not necessarily underwrite the loan. It does not have a direct relation to the deposits in that currency. I stand to be corrected on that.

Ms. Francis: That is not my understanding and I asked Frazee when he was chairman. The other thing is that you know, of course, the bank inspector started five years ago to ask them to put reserves up. Now, five years later, there is the equivalent of 10 per cent of the cash set aside in the event all the loans go sour.

Mr. Ferraro: But as Mr. Taylor indicates, we are paying for it.

Ms. Francis: Not the depositors. It has been hurting the bank profits because they have had to set it aside in reserve.

Mr. Ferraro: Yes, but indirectly. If profits are being hurt they are going to try to squeeze something else in order to get the dividend up as well.

Ms. Francis: Maybe that is why our real interest rates are historically at their high. It is worldwide. Let us not pick on our guys. It is happening in the US too.

Mr. Foulds: That is part of the tough, international competitive world of finance.

Ms. Francis: The changing nature of the financial market.

Mr. Cordiano: This is my first day back on this committee. I have not had the benefit of reading your book, which I am sure I will find interesting, so please forgive me if I ask anything that is obvious in your book.

I wanted to talk a bit about the concentration situation in the US. Have they done anything about concentration? Is there any discussion or dialogue in the US about concentration?

Ms. Francis: That is a good question. In general, the Americans have realized you have to save capitalism from the capitalists, going back to Teddy Roosevelt, who took on the richest man in the world--Rockefeller--and made him bust up his oil company into five pieces. Reagan's administration just busted up American Telephone and Telegraph into a dozen pieces. This is in the interests of not allowing anything to get too big.

Andrew Jackson, back in the 1830s, busted up the big British banks. That is why the American unit banking system is so different. They were being dominated by a handful of big British banks.

As far as other kinds of concentration in marketplaces goes, they have very strict antitrust rules.

Mr. Cordiano: A lot tougher?

Ms. Francis: In the US a takeover is not a right, it is a privilege. It always has been. Every time you make a takeover you are hauled before the Federal Trade Commission, which is the antitrust tribunal in Washington, and you are asked to sell all or part of what you just bought if it does not like the deal.

A good example of the difference between the two countries was when Gulf was bought by Chevron in the US. Chevron was ordered to sell several thousand gas stations in selected regions because it would be an inordinately high concentration. An inordinately high concentration, by the way, is 20 per cent for them. They were asked to sell certain refineries and wholesale operations and that sort of thing. Here we had our own national oil company buy those gas stations, end up with a 33 per cent market share in Ontario--one out of every three gas stations in Ontario--throw 2,000 Canadians out of work and eliminate a competitive player from the marketplace. That is the difference.

Mr. Taylor: All in the public interest.

Ms. Francis: The Americans have realized that capitalism destroys itself if you let it. I submit that if Teddy Roosevelt had not taken on John D. Rockefeller, most Americans would be working for Exxon, International Business Machines and General Motors. GM has had its wings clipped for years. I cannot tell you how many takeovers they have tried to make. Euclid was the most recent one. They wanted to merge with Westinghouse. All along the way they have been denied every takeover they wanted to make by the FTC. A soft drink manufacturer recently wanted to take over Dr. Pepper.

Some companies were allowed to merge but it gets to a certain level.

They have what they call a Herndorff scale. It is complicated, but basically they get very upset if four firms have 70 per cent market share. A market is defined very scientifically.

Because of their antitrust laws the consumers have benefited. The example is when the oil price dropped in December, the Americans saw an immediate drop in the gas price at the pumps because each region in the US has maybe a dozen refineries that are independent of the gas station owners, who are competing for market share, importing and trying to get good prices in the field, passing it along immediately. Here it took four or five months. Diesel prices actually went up, as did home heating oil and lubricants, because we have a cartel, a group of five in Ontario who control the whole refining.

11:30

Mr. Cordiano: I have not looked at any comparison between Canada and the US, but how would you say we are handling the concentration--not handling, but how do we fare with regard to corporate concentration or family ownership?

Ms. Francis: There is no comparison. I found that 32 families and five conglomerates have about a third of the nonfinancial corporate wealth of the country. You would need to go to 100 or 150 companies in the US to get anywhere near that level of ownership, and those 100 would be multinationals, enormous companies, much bigger.

We have far more concentration. That is necessary to a certain extent because our economy is smaller than that of California. Probably the best way to do it would be to compare us to California, and even then I submit there would be more lively competition there because of the antitrust rules and regulations.

Mr. Cordiano: Even then it would not be a fair comparison, because there is an (inaudible) marketplace.

Ms. Francis: Yes, most of them would be multinationals.

Mr. Cordiano: Surely the argument has been made that concentration is needed in certain areas because of our lack of a market and so few people within such a large space.

Ms. Francis: It is, if it is justifiable; that is, if a company needs to be big, to act as a springboard for export. Why does Bell Canada have to be as big as it is? Northern Telecom has to be big but not Bell Canada.

Mr. Cordiano: Talking about exports and the potential for a small firm to grow to a medium-sized firm and then to get involved in exporting abroad, the way the banking system is designed with its concentration of five or six large banks does not facilitate that. That is where the problems might exist for small businesses with regard to growth and expansion and the potential for overseas exportation. I am speaking at first hand because I have some experience in that.

Ms. Francis: There is a problem because big banks have begotten a lot of other big entities. They have special privileges in the marketplace that small and medium-sized businesses do not.

As I said before, they have the patience of Job with Dome Petroleum. I have an example here of an oilman who had a \$46-million loan--I think it was

with the Canadian Imperial Bank of Commerce--that he was having trouble servicing back in 1981 because he had made a foolish takeover. He said, "I have to go and borrow another \$6 million because when you get to \$50 million, you get a special workout team." He went out and borrowed \$6 million more and he got a special workout team. They did not pull the plug on him. He figured at \$46 million they would just say, "Right, next one" and pull the plug on him.

There is different treatment. There is not a level playing field as a result of the huge size. That is where credit unions and that sort of thing can fill a gap.

Mr. Cordiano: There is a void there.

Ms. Francis: The mistake is having all the little unit banks. You have 12,000 or 14,000 banks.

Mr. Cordiano: You have vibrant regional economies, much more so than we have experienced in this upturn, because these local banking entities are probably stronger.

Ms. Francis: They are troublesome unless they are watched, in the way the American groups are watched. The stuff that is happening in Alberta is going to be nightmarish. They have already thrown \$150 million at it and they are going to have to throw another \$150 million at it.

Mr. Ferraro: It cannot be any worse than Northland.

Ms. Francis: Yes.

Mr. Cordiano: In talking about controls, the point you made about regulation is probably where the difficulty lies. The same problem of lack of control exists in the US with its banking system.

Ms. Francis: Yes. Of course, they have so many more failures. They have a couple of hundred a year. They are very good at this. They have a SWAT team. A good example was the Seattle bank that became shaky. I was told by a banker in Alberta it was really breath-taking to behold. They had this SWAT team descend on Friday night after the bank closed its doors. They went through and did the whole audit, listed the whole thing and had a merger partner that they announced on Monday morning. Literally, 200 guys went in there and went through everything in that bank and also came up with a merger partner by Monday morning.

Mr. Haggerty: That quickly.

Ms. Francis: It was a red-flagged bank. They were worried about the bank. I guess we are going to have to spend the money in this country to make sure.

Mr. Taylor: As you know, last month there was a meeting at Punta del Este in Uruguay of members of the General Agreement on Tariffs and Trade to determine an agenda for the next round. I gather financial services was put on that agenda and I gather there is a meeting on October 27 in Geneva if I am not mistaken. Have you turned your mind to the possible impact on our financial institutions in Canada of financial services in terms of a GATT type of negotiation and agreement on a world basis? The reason I put that to you is that I see in the world marketplace, the financial community, we may be influenced by external pressures. I am wondering if you have given any thought or consideration to that. I am sure somebody has.

Ms. Francis: My perception is that our banks are world class and world scale. All five of the big ones are, in size, in the top 100 banks in the world. They are big boys and I do not think they need the protectionism any more, but our brokerage community would just be gobbled up, which may or may not be a bad thing anyway. There is a lot of suitcase brokering going on and a lot of suitcase banking going on anyway in Canada. Why not have them establish an entity here and charge them corporate income tax, rather than have them come up with a suitcase and take the business back home to New York? They are doing it every day of the week.

Another thing is that maybe we are seeing this happen as a matter of course anyway, with the Wood Gunds, the Gordons and everybody merging. We are protectionist. There is no question.

Mr. Taylor: That is right and maybe to our disadvantage when we have to face that competition in a global market.

Ms. Francis: That is right. Really, a lot of the little brokerage firms, no matter how innovative, etc., would be mere departments or perhaps should be a department of a larger brokerage firm. They specialize. They have a niche usually. They have certain clientele, etc. Why not have them part of a larger entity? Here they can exist quite separately because of the protectionism. I think they would be gobbled up and become part of something larger. Did I answer it?

Mr. Taylor: I was wondering whether you were giving any thought to what is happening around the world in terms of the pressures that build up and dictate change in our own institutions. Financial institutions are going to have a real problem with this one--

Ms. Francis: I do not think our banks will.

Mr. Taylor: --financial services, which the US insists we put on the agenda. There are about four items they are insisting we put on: trade and services being one and financial institutions being another; intellectual property and agriculture.

11:40

As I say, sometimes change comes because we have to adjust and adapt to a world condition. When you are a part of a process to liberalize world trade, then we may have to accommodate that liberalization and amend our laws accordingly. I am just wondering whether you had anticipated in any way what could happen as a result of that process, if there was any success in negotiating financial services as a part of GATT. I was just wondering if you have done that.

Ms. Francis: Yes. There are a couple of reasons the Americans are upset about. It is actually because we have been so successful. Sun Life is as large as any of the five large banks by any measurement. It is one of the largest life insurance players. Of the 20 largest life insurance companies, five are Canadian. In the US, Crown Life is huge. Sun Life has a portfolio division in Boston that is bigger than the whole of Bay Street combined. They have a bigger portfolio investment than all of the Bay Street brokers have in their portfolios combined. It is huge. It is a breathtaking success story.

I believe the Americans are saying: "You can knock around here and the Bank of Montreal can buy Harris Bank in Chicago. Come on. Fair is fair." So,

looking at a continental context, which I guess is going to have to be the case, free trade or no free trade, we will have five big banks and five big life insurance companies out of 20 in the continent thrashing around. Not that we have more than our fair share, but we will have to be less protectionist. In the life insurance business and the banking business, we are in their league already. But the brokerage business is a little different. That is still very small.

Mr. Ferraro: That was my question on the continental basis, free trade--

Ms. Francis: If you allow the brokerage business to be owned by another one of the pillars, then you do not have any problem with capitalization and size, which is what I believe Mr. Parizeau proposed. Did he not propose that the brokerage industry could be both foreign owned and in partnership with a life insurance company and that sort of thing? Was he not going to open it all up?

Mr. Ferraro: I think you are right.

Ms. Francis: The Prudential owns Bache, for instance, so why could Sun Life not own Dominion Securities and then you would have huge financial muscle. The thing the Americans do not allow--and this goes back to the 1929 crash--is that banks and brokers cannot be jointly owned. The bank and the brokerage are the only two pillars they separate in the US money and financial institutions. The stock market crashed because the banks were speculating in the market through the brokerage firms they owned.

Mr. Ferraro: Except the really confusing thing in the US, if you want to go down there and compete in financial institutions, is its state regulation.

Ms. Francis: Yes.

Mr. Ferraro: Up here it is essentially, to all intents and purposes, federal. Trust companies such as Royal Trust had a hell of a time.

Ms. Francis: Securities are provincial but it is federal down there.

Mr. Ferraro: Yes, it is federal down there. I do not know how the hell you are ever going to get a change. If they made a federal agreement, it would bind the states, I guess.

Ms. Francis: Yes, it is supposed to.

Mr. Ferraro: It would not necessarily here, though, not in the financial sector.

Ms. Francis: I believe everybody is supposed to sign it off, are they not?

Mr. Ferraro: I guess so.

Ms. Hart: Just following up on something you said, you were talking about suitcase brokerage and banking--a colourful term. I believe you then went on to ask why do we not just allow that and charge corporate tax. Are we not moving in the opposite direction when the feds are designating international banking centres? I may be drawing a conclusion that it is not fair.

Ms. Francis: I really do not have my head around what the feds are trying to do with these international banking centres.

Ms. Hart: That makes two of us.

Ms. Francis: I do not know what that will do, and why they would exclude the financial capital of the country from that is beyond me.

Mr. Chairman: Mr. Beck of the Ontario Securities Commission was critical of that. He felt that our province would lose by it.

Ms. Francis: Absolutely, and this is the centre of financial gravity. I guess the point is that if they designate Toronto, they may as well not designate Montreal and Vancouver.

Mr. Ferraro: The point is (inaudible) designate anybody else there.

Ms. Francis: You could turn the whole country into a tax shelter.

Mr. Foulds: We have been doing that for 120 years.

Mr. Ferraro: You see how much money is in retirement savings plans?

Ms. Francis: I know; it was \$100 billion last year.

Mr. Chairman: Are there any other questions? Briefly, we had a discussion before you arrived about ownership restrictions on financial institutions. There seemed to be a feeling that we should be considering this. We were throwing around figures such as 10 per cent and 30 per cent, which are the two figures mentioned in the Blenkarn report. Do you have any comment on that?

Ms. Francis: On the thresholds of ownership?

Mr. Chairman: Yes.

Ms. Francis: I concluded that if 10 per cent is wise for banks, then 10 per cent should be wise for any financial institution. However, the Blenkarn committee did have a very interesting suggestion about pegging it to the assets. I have not thought of any magic figure. It just seems to me that we should restrict the ownership considerably.

Mr. Ferraro: Perhaps we should peg to the (inaudible) not necessarily the assets. Subtract the liabilities from the assets.

Mr. Chairman: As Mr. Bond was mentioning, the trust companies were arguing. They, of course, argued against that sort of control. They pointed out that the restrictions on banks were put on initially to keep foreign ownership under control. That does not seem to be the issue any more.

Ms. Francis: Do you mean the 10 per cent limit?

Mr. Chairman: I think the political issue at the time it was put on dealt more--

Ms. Francis: It was because the Chase Manhattan was buying Toronto Dominion shares.

Mr. Chairman: Right.

Ms. Francis: They could just have restricted the foreign ownership.

Mr. Chairman: They could have restricted foreign ownership.

Ms. Francis: That would have made the Americans extremely angry politically.

Mr. Chairman: Yes.

Ms. Francis: They had to do it in a shotgun fashion. I guess you can argue that the ownership does not really matter, but I still subscribe to what Robin Korthals said, that the best way to steal from a bank is to own one, which I think is true. On the other hand, look at the Northland and Canadian Commercial Bank, which were widely held. They were a mess and involved in self-dealing through their boards.

Mr. Ferraro: Do you deal with a bank or a trust company?

Ms. Francis: I deal with the the Bank of Montreal.

Mr. Chairman: We appreciate very much your coming here and sharing your wide knowledge and opinions. It has been very helpful to us. We are in the process of putting together some conclusions and still feel that we do not know enough generally, but you have been of great assistance in attempting to overcome that. Thank you.

Members should be aware there probably will be a bell ringing within the next 10 or 15 minutes. We will adjourn until next Thursday at nine o'clock. The deliberations we had this morning prior to Ms. Francis arriving were on the record with Hansard. We will be having another witness at 10 on Thursday.

Clerk of the Committee: At 10:30.

Mr. Chairman: He cannot arrive before 10?

Clerk of the Committee: No.

Mr. Chairman: Is there any discussion on whether we should have Hansard between nine and 10?

Mr. Foulds: I move that the committee start at 10 o'clock next Thursday.

Mr. Chairman: That was not the subject I was raising. Sometimes democracy overpowers the chairman, I suppose.

Ms. Hart: That might be all right if people showed up at 10, but most people walked in at 10:20.

Mr. Foulds: I noticed that most of the people who voted for starting at nine, aside from you and the chairman, were not here at nine.

Mr. Chairman: How did you notice that?

Mr. Foulds: When I walked in, there were four people in the room.

Mr. Chairman: But some had come and had already left.

Interjection.

Mr. Chairman: That is true.

Mr. Haggerty: Let us keep the nine o'clock time, because you are going to be dealing with estimates, and with even an hour on that every week we may get through it.

Mr. Foulds: Mr. Chairman, I have a motion on the floor that is a duly constituted motion and we should deal with it. I moved that we meet at 10 o'clock next Thursday.

Mr. Chairman: I fully agree; you put a motion on the floor, Mr. Foulds. I should inform the committee that I wrote an extensive letter this morning to our House leader setting out my concern, endorsing the motion that we change our meeting days to Wednesdays and pointing out that we had chosen to meet at nine o'clock because of our own diligence and desire to have as much time as possible.

Is there any debate on Mr. Foulds's motion?

Mr. Haggerty: Will it be just for next week?

Mr. Chairman: You want it just to be next week? Are you talking about next week or for ever?

Mr. Foulds: I am taking this one step at a time, Mr. Chairman.

Mr. Chairman: You are talking only about next week.

Mr. Haggerty: I thought that was what your motion was; was it not?

Mr. Foulds: That we meet at 10 o'clock next Thursday; that is what I moved.

Mr. Chairman: Next Thursday only at 10 o'clock.

Mr. Foulds: I did not say "only"--I said "next Thursday."

Mr. Chairman: We want to understand the meaning, Mr. Foulds.

Mr. Foulds: We will find out after next Thursday, will we not? We will find out the committee's commitment.

Mr. Chairman: Is there any other discussion? The motion is that we meet next Thursday at 10 o'clock.

Mr. Ferraro: I have a question. Does that mean every Thursday?

Mr. Chairman: My interpretation, subject to whatever the clerk says, would be that the prior motion that has been passed to meet continually at nine o'clock is merely being amended for one week only. Is that what you intended, Mr. Foulds?

Mr. Foulds: That is a valid interpretation, Mr. Chairman.

Mr. Chairman: All right.

All in favour? Opposed?

Motion agreed to.

Mr. Chairman: We meet Thursday next week at 10 a.m.

The committee adjourned at 11:53 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CORPORATE CONCENTRATION

THURSDAY, OCTOBER 23, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

McGuigan, J. F. (Kent-Elgin L) for Mr. Cordiano

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

Witnesses:

From Confederation Life Insurance Co.:

Burns, P. D., President and Chief Executive Officer

Douglas, B., Vice-President

From the Ministry of Industry, Trade and Technology:

Lavelle, P. J., Deputy Minister

Redgrave, D. E., Assistant Deputy Minister, Policy and Technology

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, October 23, 1986

The committee met at 9:24 a.m. in committee room 1.

CORPORATE CONCENTRATION
(continued)

Mr. Chairman: Perhaps we could get started. We welcome this morning Patrick Burns, the president, and Bill Douglas, the vice-president, of the Confederation Life Insurance Co. They have a presentation that they are prepared to give, and I hope they will entertain some questions thereafter.

CONFEDERATION LIFE INSURANCE CO.

Mr. Burns: I will begin by saying we are delighted to be here. Our purpose in coming is twofold. First, we want to endorse some of the proposals that would have been contained in the submission of the Canadian Life and Health Insurance Association, but perhaps more important, we want to make ourselves available for any questions that the committee might have. I repeat that we endorse the memorandum from the industry association, which I believe was submitted to this committee on October 2.

I will make a couple of comments about our own company and therefore the perspective from which we come. We are a 115-year-old mutual company operating internationally. The fact that we are a mutual company and the fact that we are international are two points that will probably be perspectives I will want to bring out, as we discussed.

Our point of view is that the most important proposal made by the industry association is that all life insurers in Canada must be given the power to own, either directly or through a downstream holding company, a broad range of financial subsidiaries. The desirability that the government grant this power has been consistently recognized in all the proposals dealing with financial institutions. There are several reasons for this. Perhaps the most important is that over the years the products of the life insurance industry have evolved as have those of other financial institutions, such that, to use the perhaps hackneyed term, "the four pillars have blurred" to some considerable degree. Another way of saying this is: It may well be that market forces have almost moved in advance of legislation and regulation.

A couple of examples I would give on the nature of the products we offer and their similarities to those of other financial institutions would be, first of all, in pension fund management. The service we provide is no different from the services provided by trust companies or by investment counsellors. Another example would be in the registered retirement savings plan field, where the deferred annuities sold by the insurance industry are really similar to the guaranteed investment certificates of the trust companies and to the savings plans of the chartered banks.

The essential difference, in our view, between the life insurance industry and other savings institutions is less in the product differentiation and more in the form of distribution. Historically, the insurance industry has distributed its products through two main sources: what is called the agency

system, in which commissioned representatives typically distribute the product, and through the employee benefit field where the employer, acting in an enlightened manner as an employer and in recognizing his duties to his employees, will make certain benefits available on what we call a "group basis." The lines are blurring from the other direction as many of the trust companies are now operating through the use of commissioned representatives in terms of gaining deposits.

In saying there is a blurring of products between the different classes, I am not suggesting that we are necessarily moving to, nor am I promoting, one-stop shopping, to use the well-used phrase. On the contrary, this is unlikely to ever fully develop, but our view is that the public should have the opportunity, if it so wishes, to not have to go to a series of different spots. I am suggesting that the product development can best be determined by that marketplace and that any legislative action to restrict those services offered through simply different distribution systems is not in the public interest.

We believe there are some products that require the counselling of an experienced agent-professional to be effectively sold to the consumer. Life insurance is generally regarded as being of this characteristic--life insurance in all but its most basic and small amount forms. There are also some products that can be efficiently distributed through what we call a "branch banking system." We characterize these as passive or storefront distribution systems. These are the products that the individual, through his own motivation and initiative, will initiate action upon: savings and chequing accounts. There are some products that can be distributed in either form. Registered retirement savings plans would be the classic example.

To be a full-service financial institution, we at Confederation Life Insurance Co. feel that what is needed for us is to add a third distribution system to our operation. This would be a branch banking network. To remain competitive with other financial institutions, our commissioned agent distribution system needs to have access to the broadest possible range of financial products, even though some may seldom be sold in this manner.

Both of these opportunities can be opened to the insurance industry if it is granted the ability to own subsidiaries offering the widest possible range of financial services. From a regulatory or public policy point of view, this course has many positive features. First of all, expansion of the life insurance industry would bring a set of experienced and financially strong participants to new areas of the financial services industry. It would immediately increase competition and provide new ways in which the public can be served. It would potentially reduce the concentration of business and power in these sectors of the industry where the life insurance industry has previously been precluded from participating.

09:30

An important element in what we wanted to say to the committee this morning is that, by definition, mutual insurance companies are widely held, perhaps the most widely held pure form of ownership that can be thought of, and yet mutual companies have been perhaps the most constrained by existing legislation. To the extent that widely held control of financial institutions is a public policy objective, we feel strongly that mutual companies should be encouraged rather than constrained.

Second, and I made this point in my opening comments, while this committee is concerned primarily with regulations pertaining to activities in

Ontario, we should recognize that the corporate powers that pertain to our jurisdiction of incorporation also apply to all jurisdictions in which we operate.

We therefore face the risk that we will find ourselves at a competitive disadvantage in terms of the range of products and services we may be unable to offer in, say, the United States or the United Kingdom, two very major aspects of our operation. So for the Canadian insurance industry to maintain and improve its standing in world markets requires that we operate under a modern and progressive legislative act.

The issue then is not whether the life insurance industry should be encouraged to participate more fully in the Canadian financial services business; it is rather what regulatory controls should be put in place to ensure that participation is encouraged, but without assuming or creating additional risk.

Probably because of the past, the most widely perceived risk relates to shareholder abuse of power and to the possibility of self-dealing by shareholders and others. The most generally accepted proposal for control of abuses of privilege is a set of guidelines or restrictions on self-dealing.

While accepting that controls may be necessary, we envisage an environment that will benefit from a close association of various providers of financial services to improve efficiency and to facilitate a broader product range being made available through the different distribution systems.

In other words, we are saying that if, for example, we were allowed to own some other financial institution, we think there are many advantages of scale and efficiency that would develop by the two companies' co-operating. And of course, in the model of a mutual insurance company, we would picture that the typical example would be that both would be 100 per cent owned by the parent or the mutual company, the ultimate in widely held or lack of concentration ownership.

This may require different rules and different circumstances. We would support, for example, that there could be a ban on material transactions with directors or officers or shareholders or related parties of financial institutions except where that shareholder is itself a related financial institution and except, for example, in the case of residential loans of a limited size.

Where intercompany transactions between associated financial institutions are permitted, such transactions could be required to be undertaken at fair market value or on a basis that represents not less than fair market value to the subsidiary company. The concept of "not less than fair market value to the subsidiary" would provide protection to the vulnerable party.

In all cases, we are assuming that regulations exist that would maintain minimum capital requirements appropriate to each sector of business undertaken and that adequate inspection and recourse by the regulators would be maintained to ensure compliance.

Generally, we are supportive of the consensus that is developing respecting the broadening of powers of the life insurance industry to invest in subsidiary activities, and we are supportive of the controls that are seen to be required or necessary in the circumstance.

While this statement is wholly supportive of the submission by the Canadian Life and Health Insurance Association, I hope our elaboration of some of the issues raised there, as seen from the viewpoint of Confederation Life, may be useful to this committee.

That concludes our statement, which we read into the record, and we are at your disposal to answer any questions your committee may have.

Mr. Chairman: Thank you very much. Are there any questions?

Mr. McFadden: There are two or three areas. You mentioned that Confederation Life Insurance Co. has activities in the United States and the United Kingdom. Is that correct?

Mr. Burns: That is correct.

Mr. McFadden: What percentage of that business would each area represent for you?

Mr. Burns: There are many dimensions by which the size or involvement of a life insurance company can be measured. Generally, I would characterize Canadian business as representing roughly 50 to 55 per cent. Generally, the Canadian business would represent about 55 per cent, with the US being of the magnitude of 35 per cent and the UK being 20 per cent. I should mention, however, that the pattern of recent times and our expectations for growth will probably shift the Canadian content down because of the enormous size of the US market.

Mr. McFadden: Then you are expanding quite rapidly in the US.

Mr. Burns: That is correct.

Mr. McFadden: With regard to the area of self-dealing, I can tell from your comments that you are aware this has been a matter of some interest to this committee. I know it has been of interest to other committees that have looked at it, either in this province or in Ottawa. I am trying to get a fix on what you are saying precisely.

Correct me if I have misunderstood what you are saying. What you are saying essentially is that you feel it is in the best interests of the industry and your company to be able, if you choose, to move into other areas of financial services besides insurance. As it relates to business within your corporate umbrella, you feel there should be the ability to deal back and forth. What you are suggesting is that you would be supportive of restrictions or prohibitions where directors, officers or owners were to deal with themselves or get loans and so on from the company or for any other financial institution. I just want to be sure I have the gist.

Mr. Burns: You are absolutely correct. I might add one other thing. In the likely environment we picture ourselves operating in, we would probably not face the problems of self-dealing, because we would picture the mutual company as being essentially the owner of any of its subsidiaries. We would picture the subsidiaries being created simply to facilitate supervision and reporting.

To put it another way, if legislation enabled us, under the parent of Confederation Life, to do broader financial services without the necessity of forming subsidiaries, we would be very comfortable with that model. We do have

some views that are less likely to relate to Confederation Life about self-dealing and the possible restrictions. Perhaps Mr. Douglas has some comments he would like to make on this. However, they do not levelly apply to our own likely environment, as pointed out.

Mr. Douglas: It is difficult for me to see a circumstance in which transactions with owners, officers and directors of a financial institution group could be of benefit to anyone other than the owners, officers and directors. Certainly they would not be of material benefit to the financial institution itself.

A ban on what we have called material transactions, in that context, seems to us to be not unreasonable. One of the problems is to define what a material transaction is. It would be a little silly to have a regulation that precluded me from buying a life insurance policy from Confederation Life, which is a transaction in the normal course of business. However, I cannot see a circumstance where a sizeable transaction between myself and Confederation Life would be beneficial to Confederation Life.

Mr. Mackenzie: On the exact same point, as a supplementary: Is it possible to give us a further definition as to what might or might not be seen as self-dealing? You say you would have to define what was self-dealing.

Mr. Douglas: An approach that might work would be to define transactions in terms of size. Let us pick a bank as an example. It would strike me as absurd if I were an officer of the Royal Bank and I could not open a deposit account at the Royal Bank. If I were to lend a substantial amount of money to a financial institution that I controlled, the question of the terms of the loan would be very relevant and would introduce the possibility that I would favour myself through the institution I controlled.

09:40

Mr. McGuigan: Would they not examine the transaction?

Mr. Douglas: Oh yes.

Mr. McGuigan: They would evaluate it.

Mr. Douglas: Sure, they evaluate it now under the Canada Business Corporations Act. It is illegal for Confederation Life to lend me money in any form at the moment.

Mr. Burns: Including even a mortgage.

Mr. Douglas: Including even a mortgage on my house.

The situation is slightly different if there is an industrial company. Let us say it is Brascan controlling London Life. We may feel that in competing for group business of companies in the Brascan stable we are at a competitive disadvantage relative to London Life. Whether London Life should be permitted to insure other companies in the Brascan organization is a question that should be looked at. I am not sure what the appropriate answer would be in that circumstance. It would be a material transaction. It would run into group premiums in the millions of dollars and yet it is in the normal course of business. In conducting business, normal business should be

permitted and large transactions should not be permitted--we end up with an area--

Mr. Burns: It might help the committee if I give an example of the sort of transaction that clearly should be permitted. Suppose Confederation Life, a mutual company, owns a trust company. Suppose we make a very large loan with two features in it. One has a mortgage that fits the liability structure of one of the institutions and the other has equity participation that fits the other. The transaction should be permitted to be split, if you like, between the two financial institutions, but it should be done on a basis that, as our submission said, is to the disadvantage of neither. We would find it difficult to operate if self-dealing rules limited that situation. We would also find it difficult to operate--let us say that the parent company has a \$15 million computer installation and wants to sell its services at fair market value, or something like that, to a user within its stable of companies. I hope any definition of self-dealing would not preclude this kind of thing because it is done for internal efficiency.

Mr. Douglas: Within the financial service group, there is very little incentive for abuse of privilege and tremendous potential benefit from co-ordination of services. Self-dealing defined to include transactions within a single group strikes me as being appropriate in virtually all circumstances.

Mr. McFadden: Legislators have a problem in dealing with this. It is very hard to define. You almost move from one case to the other. If setting up a regulatory framework whereby every single transaction would have to be reviewed by a regulator becomes an objective, it could be very complex. The trouble is developing a law that eliminates unhealthy self-dealing. The obvious example is where a financial institution within a conglomerate advances money to an industrial enterprise on terms no other financial institution would ever get involved with, or for that matter in the amounts. Most financial institutions would probably say that is an area that would be ill-advised, if the industrial enterprise turns out to be a poor credit risk. We are worried about undermining financial institutions.

Mr. Douglas: It might be ill-advised in all circumstances.

Mr. McFadden: It might be ill-advised in all. That is the extreme example. There is the Crown Trust situation with Cadillac Fairview. Then we move to your instance, which you probably describe as an ordinary business transaction, perhaps to the benefit even of the policyholders in terms of return. Our difficulty is, can this ever be all set out in black and white in legislation? Can it be left to a certain informal understanding between the regulator and the industry or should approval processes be set up?

Mr. Burns: I understand your dilemma. Our hope is that the pre-approval processes are kept to a minimum, or in situations where they cannot be framed, that there be some size criteria, size in an absolute sense or size as a relationship to the buyer or the seller or something such as that. I am sympathetic to your dilemma because it is one of those situations--ask me to write the 10 commandments and I do not know how I would do it, to be honest with you.

Mr. McFadden: That is the problem.

Mr. Burns: Yes.

Mr. McFadden: One thing that your industry brief indicated, which I

take it you are confirming today, is that the financial market is changing the industry. The industry says, "You have to allow us more freedom to move into other areas otherwise you are restricting us so tightly we will not be able to compete effectively in the changing financial situation world wide." Is that accurate?

Mr. Burns: Yes, that is completely accurate. There are two prongs to it. The first is that the future of the industry will be a little dimmer if we are restricted to the historic life insurance products. We have the skills, the financial strength and so on to make that expertise available. The classic example, as I mentioned, is our ability to manage assets for people, typically corporate pension plans. The second point is that in spite of regulation, the market forces are moving in such a direction that everybody is to some extent getting into the other person's backyard because there is no discernible difference between many of the products we offer and many of the products the banks offer. You get into the dilemma of regulating these. There will be a difficult situation in framing this. "This is an insurance company product subject to the department of insurance. This is under the Bank Act." It is a problem.

Mr. McFadden: How would you describe the level of competition in the insurance industry? One of the areas we are concerned about is competition to maintain the financial integrity of financial institutions at the same time as we need to maintain competition. There is the question of putting so much regulation to maintain financial integrity that the consumer gets disadvantaged because there is virtually no competition because effectively there are only a small number of companies in the business. How would you describe the insurance industry right now?

Mr. Burns: With tongue in cheek, I would say, "Almost suicidal." I can point to a couple of features. The first thing is that if you look at the market share of the largest insurance company in Canada, it is much smaller than the largest financial institution in any of the other sectors, the banks or the trust industry. That is the key point I would make.

Mr. Douglas: Although the comparison that you draw is totally valid, the more stringent you make the financial requirements in respect of participating in a business, the less effective competition will be. Where we find the reserve and capital requirements are higher, we tend to find the pricing is less sensitive. Today, in Canada, the competition is just plain fierce.

Mr. McFadden: I guess that is good for the consumer.

Mr. Burns: In the extreme it is not because it drives some companies from the market, quite apart from the question of whether they can meet their obligations.

The other point I should make is that if we ask, "Ten years from now, will there be more or fewer insurance companies in the market?" I would have to say that I think there will be fewer. This is a trend that has been taking place over the past several years. The reason is the critical mass necessary to be an efficient insurance company today has increased; many people would say, in real terms, by 300 per cent over the past seven or eight years. The problem is that distribution costs are so expensive, competition is so high and, very important, technology costs are so high. The amount of money necessary to invest in computer networks today just to maintain a competitive position is driving many smaller companies either from the field or into

mergers and amalgamations. I should make that point when you ask about competition.

9:50

Ms. Hart: Is it not the same as well for the other financial institutions? There are a lot of mergers going on.

Mr. Burns: It is happening. Technology is an increasingly burdensome part of their costs. Yes, I would say it is. We just think it is a little more acute in our business; perhaps that is natural.

Mr. Foulds: I have a couple of questions. You indicate you are expanding into the United States and that in percentage terms that will increase while your proportion of Canadian business will probably stay about the same. Why is that?

Mr. Burns: The first answer I will give is that the population of the United States is 10 times the size of Canada's.

Mr. Foulds: Is there an unserved market there?

Mr. Burns: There is an unserved market in both countries.

Mr. Foulds: Really?

Mr. Burns: Yes. The demand for traditional life insurance is not finite. On the other hand, the demand for other aspects of it, such as the employee benefit field, which in our case is by far the largest part of our business, is finite and we are seeing it--let me give you an example. The strongest part of our Canadian business is the provision of employee benefits. Our market niche, if you like, is the large employer with complex administrative needs. Normally, we used to expect that new job formation would add about four per cent to our business every year. In the market in which we deal in Canada, new job formation is now adding minus two per cent per year.

Mr. Foulds: Are you expanding in employee benefit packages in both Canada and the US?

Mr. Burns: Employers are not introducing new benefits in Canada. The unions typically are not bargaining or at least are not being successful in bargaining for new benefit packages, so there is a worrisome hiatus in the Canadian market.

Mr. Foulds: That has sort of levelled off.

Mr. Burns: Yes.

Mr. Foulds: Is that employee benefit package part of your portfolio expanding in the United States?

Mr. Burns: Yes, it is, because we have so small a market share that the limits to growth are not--we are the largest provider of employee benefits in Canada, so to some extent we feel we are bumping our head against a finite market.

Mr. Foulds: Forgive me for being as uninformed as I am about your industry. Where would you place yourselves in the hierarchy of size in Canada?

Mr. Burns: I would describe us as sixth in size in Canada and 20th in size in North America, which is another way of saying that the Canadian companies--

Mr. Foulds: Are pretty big.

Mr. Burns: --are very big. They are world-class performers.

Mr. Foulds: As I understand it, you are a widely held company. Can you identify the largest owner?

Mr. Burns: Under the concept of a mutual company--I want to be careful with my legal terms as to who owns a mutual company because if my lawyer were here today, he would say, "Please, please."

Mr. Foulds: He would kill you. We will not take you to court.

Mr. Burns: Under the concept of a mutual company, the members are defined as those who have what is known as a participating type of policy, with one vote per member regardless of the size of that policy. We can identify them. We send a proxy out to them each year. When we have substantive issues to be voted on, we require that they be voted by proxy.

Mr. Douglas: I am trying to think of the number. I think there are about 500,000 voting policyholders, each of whom has one vote.

Mr. Burns: You are a little high at 500,000 but it is at least in the order of 300,000.

Mr. Foulds: Between 300,000 and 500,000?

Mr. Burns: Yes.

Mr. McGuigan: Say it is 400,000.

Mr. Burns: Many people describe it in exactly the same terms.

Mr. Foulds: Does anybody else have voting rights?

Mr. Burns: No.

Mr. Foulds: It is only the policyholders.

I will ask the more difficult question. Who controls the company?

Mr. Burns: That is the more difficult question. Theoretically, the policyholders vote for and appoint the directors of the company. The directors, in turn, appoint management. I have given you the textbook answer. There are many cynics or critics of the mutual insurance concept who say: "While you have much to brag about in terms of the widely held nature of the ownership, nevertheless management is a self-perpetuating function. Under what circumstances could you as the chief executive officer be removed?" The answer is by the board of directors acting as it sees its stewardship on behalf of all the policyholders. It really does work.

Mr. Foulds: How large is the board of directors?

Mr. Burns: It is 17. That is not a fixed number. Our present number is 17. Our bylaws state anywhere between 12 and 20.

Mr. Foulds: Are they elected annually?

Mr. Burns: They are elected annually. At present, there is only one person from management on the board, myself. I believe the Canadian and British Insurance Companies Act limits it to two.

Mr. Foulds: Two management people.

Mr. Burns: Two management people is the maximum allowed on the board. I may be wrong; it might be three. It is either two or three.

Mr. Foulds: Can you give us some idea of the turnover of the board? I am getting at the question you raised yourself, which is the self-perpetuating function.

Mr. Burns: Because of the age distribution of the board, we will go through periods where we will have no turnover or we will have much. I face a turnover in the board of about five in the next three years. Normally, I expect an average turnover to be no more than one a year.

Mr. Foulds: If you had two or three per year, would it disrupt you or smooth management?

Mr. Burns: No. I have two coming up at the next annual meeting because of the age restriction in the act.

Mr. Foulds: I want to switch gears altogether. The other insurance company we had before us indicated it had not paid corporate income tax in Canada since 1972. Can you remember when the last--

Mr. Chairman: They paid it in the United States. They could not remember when they paid in Canada.

Mr. Foulds: Yes, the last time they paid corporate income tax happened to be in the United States. They could not remember when they last paid income tax in Canada. When was the last time you paid corporate income tax?

Mr. Burns: I wish you had not use the restrictive term "corporate income tax."

Mr. Foulds: I will get to the other question.

Mr. Burns: The answer is I cannot remember.

Mr. Douglas: There is one point though. By holding substantial amounts of common stock as an investment, we are receiving tax-paid income into our income stream, dividends being tax free as something on which the tax has already been paid. The primary reason we do not pay tax is we purchase stocks sufficient in volume to eliminate the taxable income in Canada.

Mr. Foulds: What stocks?

Mr. Douglas: Common stocks, preferred stocks; any common shares.

Mr. Burns: Industrial organizations.

Mr. Douglas: Industrial organizations.

Mr. Burns: Publicly traded.

Mr. Douglas: Is it \$600 million or \$700 million of stock holdings in our company account.

Mr. Foulds: These would be in a wide range of companies from resource companies through to manufacturing--

Mr. Douglas: Yes; everything. If we were to sell off those stocks and buy bonds instead, we would be taxable.

Mr. Foulds: Can you recall whether you have paid corporate income tax in Britain or the United States?

Mr. Burns: We pay corporate income tax in the United Kingdom because the taxation system there is not based on profits, but upon investment income. There is a tax that by its nature is almost a constant. The answer is yes, we pay tax there.

Mr. Foulds: Let me ask you the question you wanted me to ask you. What kind of taxes do you pay and how much?

Mr. Burns: We pay a tax roughly equivalent to two per cent, and in some cases, three per cent of every premium we collect, which in my opinion is perhaps the most punitive and illogical tax the industry faces.

Mr. Foulds: How much was that last year? Do you have even a rough idea?

Mr. Burns: I will say \$15 million.

Mr. Foulds: Does that go to the federal government?

Mr. Burns: No, it is provincial.

Mr. Foulds: It is provincial.

Mr. Burns: It is provincial or state.

Mr. Foulds: What is the tax called?

Mr. Burns: Premium tax.

Mr. Foulds: Premium tax on policies.

Mr. Burns: Yes.

Mr. Haggerty: It used to apply in Ontario at one time. I believe it was removed in about 1970 or 1971.

Mr. Burns: No, we still pay it.

Mr. Haggerty: You still pay it? I thought it was removed.

Mr. Burns: No.

Mr. Haggerty: It is still there.

Mr. Foulds: Do you pay it in every province in Canada?

Mr. Burns: We pay it in every province in Canada and every state in the United States.

Mr. Douglas: The United Kingdom does not have a premium tax.

Mr. Foulds: The United Kingdom does not have a similar tax.

Mr. Douglas: It produces perhaps rough equivalents. When what they call their income tax is applied to our investment income, it may generate a tax payment of similar size.

10:00

Mr. Foulds: Of similar proportions, considering the amount of business and transactions and so on.

Mr. Douglas: Yes.

Mr. Foulds: If you had a choice, which would you rather pay?

Mr. Burns: I would prefer to pay a tax on profits.

Mr. Foulds: Okay. Thank you.

Mr. Mackenzie: I think you recouped a little in your comment, but with regard to your earlier comment about enlightened management offering various plans to their employees, my experience in organizing was that not very often were plans offered to us. Usually they were achieved when the workers or their organization went after them, and it was not an incentive that normally came from the companies. However, that aside, you have made the point that they have sort of dried up at the moment, and I think that is accurate.

A fair amount of pressure is being applied now within workers' organizations to have a little more say in the benefit plans and in the pension plans. I wonder what your reaction is to this growing demand that they be much more involved in the management of their pension plans or various benefit plans.

Mr. Burns: The first point I would make is that, in terms of the total cost to the employer, if that is a valid criterion, the cost of the pension plan typically overwhelms all the other benefit costs. Therefore, it is in many ways the one in which certainly the company has the bigger stake, and also, in fairness, the employee. On the other hand, if somebody gets sick or disabled, then a relatively low-cost benefit nevertheless looms very important to that individual's financial health.

The controversial question that is whirling around now is who owns the surplus in a pension plan. I suspect that this may have been to some extent at the back of your mind in the question.

Mr. Mackenzie: That is part of it, but it is the general arrangement of the plan as well.

Mr. Burns: Let me give you the two extreme views. The most extreme view is that if you join my company and if I agree to pay you, on retirement, a pension of a certain amount, based upon whatever--it may be your earnings--that is a commitment that I make to you. Therefore, the extreme right-wing view, if you like, would be that the worker has no interest in that. How that fund is managed is entirely the jurisdiction of the owner-manager. To the extent that he has good investment performance, he has to make up less; to the extent that he has poor investment performance, he has to dig into his pockets.

That point of view suffers a little bit from the reality that if a pension fund is well managed and is in a healthy state, there will be less resistance to benefit improvements. My view is that I would support some involvement of the workers in it, but on a scale of 10, with 10 the absolute right wing, I am perhaps a six or a seven.

Mr. Mackenzie: The question of opening up an involvement, even to the extent of work place practices, is one that we are going to see in the next few years, with the advent of technology and the way that can dramatically change the work place as well. What about the involvement of more ordinary citizens or workers in terms of the boards of the various financial institutions?

Mr. Burns: I confess that we do not have a representative of that constituency, but it is not because we have deliberately said we wanted to shut them out. I would see nothing wrong, particularly in the case of a mutual company, in a representative being a representative for the worker.

Mr. Mackenzie: To switch gears a bit, you do stress the point of the wide ownership within the mutual insurance industry. What feelings do you have about the ownership level, which is a question we have in many of the financial institutions? Should 10 per cent be the cap, the new Blenkarn recommendations of 35 per cent or the trust companies, which say there is nothing wrong with 50 per cent ownership?

Mr. Burns: I do not have a well-developed, conclusive answer to that one. I know the bank position essentially is 10 per cent. Would you like to add something, Bill? You do have some views on this.

Mr. Douglas: Again it is a question that is not terribly relevant to our company. I guess I would say that, given adequate controls in respect of self-dealing, then I do not see difficulty in having control of a financial institution rest with a limited-ownership group.

Mr. Mackenzie: In other words, you would come down more on the trust company side of the issue.

Mr. Douglas: Provided the controls are adequate, but I suspect my definition of adequate controls might be a little more extensive than theirs.

Ms. Hart: Just briefly, to follow up on the discussion about the pension plans and the participation of employees above the defined benefit, as I understand it, there are two types. One is defined benefit. I do not recall--

Mr. Burns: The other is called money purchase. It is like a bank account.

Ms. Hart: Money purchase, yes. The argument put forward for the extreme view that there should be no employee participation, as I understand it, is that if the employer is not given that incentive to have the fund do well, then he will no longer begin or continue the defined benefit type of pension plan. Do you have a reaction to that? I just do not know enough about it and I am looking for your help.

Mr. Burns: Yes. First, if you have a money purchase plan where the employer typically matches the contribution put in by the employee, then clearly, since roughly half of that money is the worker's money, he or she should have some voice in it; I do not think anybody could argue that one. If instead it is a defined-benefit plan, I think the question is arguable.

The flaw with the extreme point of view would be that many employers have, on a voluntary basis, increased pensions to pensioners at some rate that relates to inflation. For example, in my own company we have increased pensions to pensioners in each of the last 17 years. The increase has not matched inflation; our target is roughly 60 per cent of inflation. We are more willing to do that, in my opinion, because our investment performance has been good. I am afraid I would have to say to you that if our investment performance were not good, we would look and say, "Well, there is not a surplus," etc.

What is going on with the present pension legislation, in my opinion, is going to drive many employers away from the defined-benefit plan. He is going to withdraw from any social responsibility. He is going to say: "I am going to do it purely on a financial basis. The worker will put in five per cent, I will match it and then my hands are free. I will not have any part of it." Otherwise, he exposes himself to inflation and everything else.

A trend is now emerging in which the employer is moving in that direction because the irony of pension regulation in Canada is that you are not required to have a pension plan at all. If you do have one, you have very little restriction, if it is a money purchase plan. If instead you have a defined-benefit plan, which socially is the most responsible act on the part of the employer, then the regulations are becoming onerous and burdensome.

I am sorry. I am making a speech about pensions, which is a little off the--

Ms. Hart: Just to follow up on that, it would be much easier for the employer to have the money purchase plan and not to have to worry about it at all.

Mr. Burns: Absolutely.

Ms. Hart: Whatever the accumulated capital is at the end, the employee just gets a payout.

Mr. Burns: You are absolutely right.

Mr. Douglas: If you remove the reward of favourable investment performance from the employer and leave him with only the risk of filling up any deficit that may exist in the future, then the incentive to maintain a defined-benefit plan is just nonexistent.

Ms. Hart: Just one more question: If the trend were to move to the money purchase plan, is it not then in the interest of the employees to manage the fund? Is there any mechanism?

Mr. Burns: It is partnership arrangement then because half the money has been contributed by the employee and, typically, half by the employer. I think you need some joint decision-making for the investment management of it.

Ms. Hart: I have got a little off track, but I appreciate your advice.

Mr. Chairman: It is obviously a topic we are all interested in.

Mr. Ashe: Just one other question before we leave this. I would like further clarification of the pension industry, which of course, as you have indicated, is a very significant part of an insurance company's portfolio.

There is no doubt that the high profile last year, more than anything else, of employers attempting to withdraw surplus funds was because of good investment, high interest rate returns, etc.--a bit of luck along with, one hopes, good management generally. Can you put that phenomenon, in terms of numbers of plans, in perspective back to--and I am trying in my own mind to resolve a time frame, but it does not seem to me to be that many years ago that many plans were actuarially deficient and employers had to make up the shortfall.

10:10

Can you put those two groups into some kind of numbers? Was it 10 to one in favour of surplus versus shortfall? Again, I am not talking dollars necessarily. I am just trying to get a perspective of those two issues. It was never highlighted when employers had to make up shortfalls, and I hate these issues that come across as motherhood ones at a given time without looking at the whole lifetime of the baby, if you will.

Mr. Burns: It is certainly true that in the late 1970s the high-profile situation was the large companies that faced huge deficits in their pension plans. Often the deficit in the pension plan was almost approaching the value of the company. American Motors, I think, was one of the more widely known problems in the United States. There were several.

Today, because of general economic performance rather than uniquely good investment management, the vast majority of companies are in a surplus position. Couple this with the fact that many of those companies have not experienced the kind of earnings or profit levels that they want and you can understand why some of the companies are saying: "We have had good investment performance. I have been conservative in funding the pension plan. I have not had all that great a year in terms of earnings. Therefore, I should withdraw it."

It is really a problem without a solution, because while there will be restrictions--perhaps correctly so--on the withdrawal of surplus, there is no restriction that says I cannot terminate or suspend contributions from the employer for the next several years. There may be too much of a short-term perspective on this, because the typical valuation of the assets in a pension plan is done on an average of about the last three years, and we have had three years of unprecedented market performance. I am not willing to say that the next three years will produce those same kinds of surpluses.

Mr. Ashe: You think that, to get a fairer picture, maybe a longer time frame would probably--

Mr. Burns: I favour a longer time frame. Many people think you can just look at the market values on December 31 and say, "Therefore..."

Mr. Ashe: It does not work that way. It would be great if you could always pick your point in time.

Mr. Burns: Certainly three years, in my opinion, is a minimal period, and I would favour something longer.

Mr. Haggerty: I am following up on the comments that Mr. Ashe made. I had the opportunity to sit on the pension committee for a period of about three weeks and to deal with the issues we are discussing this morning. Some of the representation made at that time indicated that perhaps we should be looking at one particular pension fund for every Canadian, and that is the enrichment of the Canada pension plan. In other words, do away with the private pension plans and have just the one in there and it would probably be of benefit to the employee. But you would enrich the Canada pension plan so that you have a sufficient source of income for retired persons.

If you look at the insurance industry today, a person buys protective insurance--sickness and accident insurance, disability insurance--and some person is working in an industry and he may not have the number of years, say 10 years or something, in there. I think of one particular instance involving London Life. I have a problem there that a constituent brought to my attention. He bought this insurance, and it was all right; he was getting \$670 or so a month. But when he went to the disability thing and got Canada pension, his insurance was reduced to below the poverty level. You are working it both ways: You get the Canada pension and use that as a benefit for the industry, too.

So the more I listen to the comments this morning and think of what was said in 1981, I guess it would be, maybe they were right in saying that we should take a look at enriching the Canada pension plan and having only one.

But then the question is, this is where the government steps in and borrows all the money from it. They had the benefit there. Then the question is, "What about the investment back into the country?" That is the part that concerns me most. How do you circulate that money back in so that you have the investment to create the jobs in other areas?

Mr. Burns: I will give you the predictable answer. From where I sit, there are some arguments that the Canada pension plan has advantages with respect to portability; it gets over many of the other problems. However, my objection would be on the very point you have made. Understand that at the present time the Canada pension plan is invested. It is not funded. If it were funded, and I am not a proponent of its being fully funded, it would just be a horror story.

Mr. Haggerty: The present investment--

Mr. Burns: The way it is invested at the moment, and I am sure you know--

Mr. Haggerty: There is no return.

Mr. Burns: --is that the federal government lends money to the provinces at something that would be self-dealing in a private industry.

Mr. Haggerty: It is 3.5 per cent or something like that.

Mr. Foulds: The conflicts between the provinces and the federal government are such that it could never be characterized as self-dealing.

Mr. Burns: I am saying that if I did it to a subsidiary--

Mr. Foulds: Yes, but they are independent fiefdoms.

Mr. Burns: How about affiliate?

Mr. Chairman: As interesting as this is, we are moving a bit off topic. May I ask a question concerning comments you made about the close association of various providers of financial services? Your company does not have a lot of those associations? Is that correct?

Mr. Burns: We have a variety of subsidiaries and affiliates, essentially all 100 per cent owned and each one of them brought into existence to enable us to meet some local jurisdiction or offer a product that we are precluded from offering directly. We have essentially no affiliates in the sense that we are in truly other types of business, except that a life insurance company is not what it used to be. Many of the products we offer today--and I talked about pension fund management--have nothing whatever to do with the life insurance business. We manage corporate pension plans purely on a fee basis. Give me \$10 million to invest, and I will typically charge you a management fee averaging about 0.25 of one per cent per year. There is no risk assumption. It is done purely because we believe we can invest better than other institutions.

Mr. Douglas: The implication of the presentation is that we would like to have additional affiliations, through either the acquisition or the creation of companies in businesses more diverse from the insurance industry than is now permitted.

Mr. Chairman: That is because it would be efficient to your company.

Mr. Douglas: It would allow us to sell products we are not currently permitted to sell.

Mr. Chairman: We heard some evidence that the incentives given in some of these situations are fairly hefty, where mortgages, real estate, etc., are intertwined. This raises the question of whether it is the best value to the consumer.

Mr. Douglas: Incentives of what sort?

Mr. Chairman: We are not sure what the incentives were, but it was suggested--I think it was Royal Trustco--that there seem to be financial incentives available to agents for one company to try to push business to a brother company.

Mr. Douglas: Yes, that fits into the question of tied selling of some sort. Whether it is required or incentive contracts that do that, the essential objective is to maintain a variety of products within the same corporate organization. We would prefer that our agents deal with us rather than with London Life. We would prefer them to deal with us for as many of their products as we are allowed to and do satisfactorily serve. Right now a number of them are dealing with other organizations simply because we are not permitted to offer products that are competitive.

10:20

Mr. Chairman: If you were permitted that, what comment do you have on the eventual service to the consumer?

Mr. Douglas: As long as there are enough organizations offering a wide variety of products to the consumer, that is his best protection. To regulate what each individual company is doing at any time is a vision of a nightmare.

Mr. Chairman: If you had tied selling, then you are saying you would not mind having more tied selling permitted.

Mr. Douglas: Tied selling becomes a problem only if you have a monopoly. If we were the only insurance company in Canada and I said to you, "I will not sell you a life insurance policy unless you also take your mortgage out with me," that is tied selling, and it is not in the consumer's interest. If there are enough life companies in Canada, I do not have the power to do that to you.

Mr. Chairman: You are saying it should be all right for you to say to me: "You can go to another mortgage company. You would be absolutely foolish to do so, because we have such a deal and you have gone this far with us already in your insurance dealings. Therefore, you are really economically tied in, but if you want to, you can still go to that mortgage company and waste all that money you have already spent." You are saying the same thing, are you not?

Mr. Douglas: I do not think it is upfront money, in a sense. We offer mortgages and we offer life insurance products. Currently, we offer them independently. As long as we offer an attractively priced product in a way that is convenient to the consumer, I hope he buys as much as he will.

Mr. Burns: Perhaps the best example of the line of inquiry you are taking would be the situation where I have been making deposits to a registered retirement savings plan and I reach the age where I must annuitize those at age 71. Our practice is that if an individual reaches age 71 with us and if he says to the agent, "I now must buy a monthly income," our agent is free to shop the market and get the best arrangement.

Think of a situation in which the deposits are instead with the bank. At present, when the individual reaches age 71, the bank must say to him, "Either you have to take that money and go to an insurance company because only insurance companies can sell annuities or you can buy some other form of retirement income, such as the one the banks can offer."

Perhaps I am arguing against our industry, but I can envisage a situation in which banks may be given powers to offer annuities. In that situation, then your question would be, "If I have deposited for 35 years with the Bank of Montreal and the case comes to maturity as a result of my being 71, is the bank likely to offer a special deal to me as a long-term depositor that is better than it would offer to the man who walks in off the street?" I cannot answer on behalf of the bank, but my guess is that it would.

Mr. Chairman: Thank you for your very interesting presentation. We can certainly use it in our deliberations. We appreciate your coming.

There are a few matters we should discuss before the next witness comes.

The House leaders have considered our request to change our date from Thursday to Wednesday. As some of the members of the committee predicted, it was turned down.

Mr. McFadden: No vision.

Mr. Ashe: Short-sighted.

Mr. Chairman: I am sure they can give all kinds of reasons. There is no doubt that they have a lot of pressures on them right now. There is a lot of legislation before a lot of committees. It may be that committee members were perceptive in just asking for that and nothing more. In any event, I have here the minutes of the last House leaders' meeting. It simply indicates they turned it down. They also discussed the idea of night sittings and turned that down.

We have been given the estimates of two ministries to consider, which add up to some 12 hours. Further, it is expected that by the time we meet next Thursday morning, the Treasurer (Mr. Nixon) will have tabled the new economic outlook paper. This is subject to the views of the other House leaders, but from talking to my own House leader I do not think there is any concern about the order we do it in. The directions from the Legislature are to deal with the estimates in a particular order, but he is not concerned. If we find the economic outlook paper of sufficient concern that we want to look at it ahead of time, we can, but we need not discuss that decision until we see the paper.

In any event, this all leads to how quickly we can finish what we are doing here. I do not envisage a problem, at least from the government's point of view in a short extension of our time to finish our work here. We have suddenly found that those witnesses who were not terribly interested in coming are now very interested in coming.

The Manufacturers Life Insurance Co. has agreed to come. The Bank of Montreal now wants to come, and other banks may want to come because of their concern that we may have listened too much to the trust company point of view. Members of the committee may have views as to whether we have given them enough time and whether we have time now for the luxury of listening to them all. We have only one more week until October 30.

I want to entertain a motion today to ask the House leaders to extend our time into November, but we have to be very aware of the fact that every minute counts. The Blenkarn committee members, the chairman--and what about the dissenting view?

Clerk of the Committee: I spoke to Mr. Riis's office. Apparently he is now the new House leader of the New Democratic Party and his time is somewhat short. However, he is going to discuss the matter with his people and suggest the name of someone who can appear before us. I have not been informed of that yet.

Mr. Chairman: We can try to arrange for the representatives of the Blenkarn committee to meet us on Thursday, November 6. They would be the last of our witnesses. Unless the committee feels otherwise, we would try to have our report written as quickly as possible thereafter.

What I am looking for right now is a motion requesting an extension of meetings. Perhaps, to be safe, we could say to the end of November, but I hope we can get this tied up before then.

Mr. Foulds: I am not about to make a motion. I want to know whether the committee really feels it can do a report by the end of November.

Mr. Chairman: We have to do something.

Mr. Ashe: I thought, and I am obviously in error, we had discussed a consensus on the route we would go about two weeks ago. We would quickly put in a very brief report, tentatively only one page, just to say it was too long, too deep, etc., and thereby fulfil our original commitment of reporting, although it would not be a final report. In effect, we would have to set it aside because of all the other things that were either on our plate or coming on our plate. If I was in error in my perception of what we decided, and I do not think there was ever a vote per se, fine. I stand to be corrected.

10:30

Mr. McFadden: Could I try to figure out where we are going between now and the end of the year? Point one, we have 12 hours of estimates to do between now and Christmas. That is my understanding of what the House leaders expect us to do. Point two, we have the Treasurer's statement, perhaps next week. I am not clear as to exactly what we are expected to do with it. I suppose we can sit here and talk about it among ourselves. My understanding was that we were going to have people come in and make submissions. Is that not accurate?

Mr. Chairman: I hope we will have a Christmas break period when we can work at that. I think that is the only time we can really do that. If that does not occur, I do not know how we are going to be able to do that.

Mr. McFadden: The third area we have is to finish up the business of corporate concentration related to financial institutions. I do not know when we expect to have this report either finished in its entirety or ready for some sort of an interim thing to the Legislature. We should probably make a decision as to the order of priorities we have here, Mr. Chairman, if I may suggest that, and then work from there. Are we seeking to deal with the estimates first and get them out of the way, or are we going to work headlong on corporate concentration first and then get to estimates?

It seems to me we have a clock running here and we have to be very careful how we deal with that right now. I do not want to get into a situation with our current work where we do not give it adequate attention. Perhaps we should suggest to the House leaders that we file a very brief report along the lines that Mr. Ashe has suggested. I do not know how anybody else feels, but we could file a very brief report to the House that we are carrying on our work and not get stuck with a deadline for the end of November when we are confronting estimates and other things.

I do not think we are necessarily facing a situation where the world will stop if we do not get our report in by the end of November. We should tell the Legislature we are carrying on with our work and then ensure that when we do finish what we have, we have something worth while to say. That may be difficult to do. The concern I have right now is that if we set up an artificial barrier, we may find ourselves with clocks running and not being able to spend adequate time to get the work done.

Mr. Chairman: I have no problem with that. I apologize to the committee if I misinterpreted what was said a couple of weeks ago. Mr. Carrozza feels that Mr. Ashe gave an accurate view of the consensus. I know

you were not here, Mr. McFadden, and I am not sure whether you were, Mr. Ashe, but last week at nine o'clock we attempted to grapple with some of these issues and come up with some consensus but we did not get very far.

I caution the committee that if it wishes a report to be a one-page effort, it should not be structured in such a way as to criticize the Legislature. The House leaders really wanted us to get started on this earlier in the summer, and we chose to wait until the trade committee report was out.

Mr. McFadden: We could not very well have done both at the same time.

Mr. Chairman: No, we could not do both at the same time.

Mr. Haggerty: Just following along with David, I think he made a good suggestion. If there are 12 hours of estimates, at two hours a day, that is six committee meetings, so November is gone.

Mr. Chairman: Unless we start at nine o'clock.

Mr. Ashe: Four committee meetings if it is three hours.

Mr. Haggerty: Yes. You can suggest nine o'clock, but it may be different if you are going to have Treasury people come in because they say they cannot be here until 10 o'clock. You can only assume you are going to start that, but I suggest you are looking at about five weeks. That is going to take us to the end of November. You are going to have to sacrifice everything we come up with now, unless you put a word back to the persons responsible and say, "To continue with our work, we cannot do all these things at once, so one of them is going to have to be delayed for a short period of time."

I do not want to come back and say we are going to have a final report at the end of November, because I do not think we are going to complete the report that should be presented to the Legislature.

Mr. Chairman: Our terms of reference do permit us to continue looking at this. Am I hearing a consensus that committee members do not want to ask the House leaders for an extension?

Mr. Haggerty: I suggest to the committee members we have the estimates now and get them out of our way.

Mr. Chairman: All right, but bear in mind we have done a fair amount of work on this. The culmination seems to be to hear from Mr. Blenkarn. Do we want to hear from him in November?

Mr. Haggerty: We should hear from the banks and from the Blenkarn committee members. That is what we are looking at. Perhaps by that time the banks will have made up their minds on when they want to come in to see us.

Mr. McFadden: My understanding of the committee's work is that outside of filing whatever we can by the end of October, a standing committee is not obliged to file reports at any given time as a general rule. Once we file an interim report, or whatever we are going to say, at the end of October, we then have whatever time we think is necessary to file a final report.

I wonder whether we should not exercise that right rather than allow

ourselves to get trapped into further deadlines that are going to be hard to meet and decide as a committee that we are going to try to get it done as fast as is feasible and not get stuck with artificial deadlines.

Clerk of the Committee: To answer your question, the order of reference is that the committee should have a report by October 31. If committee members feel, as they do, that more time should be given to study the subject, then the report can be that you need more time--and this is what you are doing, you are studying it--and that you will release your report when you have fully understood and so forth.

Mr. Chairman: We will have no problem financing the cost of that report when we eventually want to do it?

Clerk of the Committee: You have a budget right now which includes the cost of the report. That does not mean you have to spend it today. It is there for the whole year.

Mr. Chairman: Can we spend it next spring?

Clerk of the Committee: Then you can have a new budget with the same--

Mr. Chairman: We have to go back to the Board of Internal Economy.

Mr. Ashe: It seems to me we can accomplish all that in one page. We can acknowledge that the committee began its deliberations somewhat later than anticipated because of the membership conflict with the select committee and that in the time it has had, it has already talked to various sectors of the industry. We can even identify them in a group way. It is obviously a deep and complex issue. Other sectors of the industry now wish to be heard, and the committee is not satisfied it is in a position to put forward a meaningful report at this time but will do so as soon as possible. We will then have fulfilled the commitment we have been asked to fulfil. We have not finalized the report, but we have taken our time frame off the hook and then we can judge accordingly. All that can be on literally one page.

Clerk of the Committee: Mr. Mackenzie will recall that the select committee on plant shutdowns and employee adjustment had a mandate to have a final report but in the meantime produced an interim report. How many pages a report has to be or what has to be said in it is not specified. There is a precedent there for saying we require more time.

Mr. Mackenzie: I thought I had my name down after Mr. Ashe spoke a long time ago.

Mr. Chairman: Yes. I just let the clerk intervene because he had a clarification.

Mr. Mackenzie: I am talking about previously.

Mr. Chairman: I am sorry about that.

Mr. Mackenzie: For once Mr. Ashe is right.

Mr. Ashe: What do you mean by for once?

Mr. Mackenzie: My understanding of our decision a few weeks ago is

that we are not in a position to write any kind of an intelligent report at this stage of the game and that the brief report we will give to the House is simply that we are well into the topic but we are not prepared to make any report.

We should ask for an open-ended leave to sit on the issue, and I say that advisedly. It can be done in half a page or a couple of paragraphs and still constitute a report to the House. The situation was not quite the same in the plant shutdowns committee because we did have some recommendations in our interim report. We obviously do not have any now, and I do not see any we can make very intelligently at this time.

The other thing I am wondering about is whether we should not send those damned estimates back to the House. However, I do not want to put our House leaders in a bind. I know everybody is squawking about the estimates time, but I do not think they should have been referred to this committee. It is valid that we hear the remaining witnesses: the Blenkarn people and the banks. We are also dealing with the Treasurer's report--unless referring it to this committee is a straight public relations operation--and we are going to have our hands full without the estimate time. I am not prepared to start a fight over it, but it does not make sense to me that we are trying to deal with the Treasurer's financial statement and the remaining witnesses and come up with a report some time in the future as well as deal with estimates.

10:40

Mr. Chairman: I do not think it is a straight PR thing because I know the Treasury personnel are anxious to become involved with us in the preparation. There are just a lot of other things on the table.

Mr. Mackenzie: That just makes my case, but I do not know how we do that and deal with the remaining witnesses and still deal with estimates.

Mr. Chairman: We all have representatives at the House leaders' meetings and we know what is going on there.

Mr. Foulds: First, I do not want this to go to his head, but George was right in his interpretation. That formula has consensus and the business of an interim report simply begs us to use the commonly used phrase, "leave to sit again," which is a good one.

With respect to priorities, I would put the economic outlook far ahead of the estimates. When it was set up, this committee was never envisaged as an estimates committee. Mr. Mackenzie is the nice guy of our team. I feel much more strongly and more angry about this committee having estimates referred to it. How can I phrase this in parliamentary terms? It is a shabby piece of business that does this committee no justice. This committee was never seen as an estimates committee.

Mr. Haggerty: I can see no reason why the committee should not review the Ministry of Treasury and Economics, though.

Mr. Foulds: I move the estimates be referred back to the House.

Mr. Chairman: We have a witness waiting and that is really a different topic from--

Mr. Foulds: You wanted to discuss housekeeping and priorities.

Mr. Chairman: I want to know what the committee--

Mr. Foulds: That is one way of unlocking our log jam.

Mr. Chairman: I would suggest you lobby your House leader very carefully on that.

Mr. Foulds: I already have.

Mr. Haggerty: It is past 10:30 and we have two witnesses here. We can debate this later on.

Mr. Chairman: May I make one statement? Unless we have a motion--and I gather you do not want a motion to extend--by the end of our sittings next week, we will have to have a report for me to table in the House next Thursday afternoon.

Mr. Mackenzie: I thought there was general consensus on that.

Mr. Ashe: I wrote the report verbally 10 minutes ago.

Mr. Chairman: We are directing Mr. Bond to come back next Thursday morning at nine o'clock with a brief draft report that we will have to approve, ostensibly by 10 o'clock. Is that understood?

Mr. Foulds: Why by 10 o'clock?

Mr. Chairman: Because we are going to have witnesses here by 10.

Mr. Foulds: You had better postpone your witnesses.

Mr. Chairman: Do you not want to hear from Manufacturers Life? Do you not want to hear from them on Thursday morning then? And the Bank of Montreal? The Bank of Montreal is not set anyway.

Mr. Foulds: What is set for Thursday morning?

Mr. Chairman: Manufacturers Life at 10 a.m.

Mr. Foulds: Why do we not keep them for that time? We can discuss the report when we have finished with the witness, presumably at 11:30?

Mr. Ashe: Do not schedule anyone else at this time.

Mr. Foulds: But you have scheduled a witness for nine and we would be finished with the witness at 10:30 and then have time to discuss our report.

Mr. Chairman: We will attempt to have Manufacturers Life come at nine. We will attempt to have someone from every party here at nine.

Mr. McFadden: Let us get realistic with this nine o'clock. You know there were two or three people here at nine. At 9:15 there were two or three and at 9:20 the people started to arrive. We have to be realistic and fair to witnesses. I know what we are trying to do. Everyone has the spirit of what we are trying to do, but we might as well tell them 9:30. Tell the committee 9:15 and members may be here by 9:30, and tell the witnesses 9:30.

Mr. Chairman: Let us leave the witness scheduled for 10 and try to

get the committee here at nine so that we can pass the report. Surely we will need at least an hour on it.

Mr. McFadden: Why do we need an hour for a report that we are talking about? It should take us about two minutes.

Mr. Foulds: It will be circulated ahead of time.

Mr. McFadden: My perception of our report is that we are simply stating that we have reviewed, we have met with people, we are in the middle of our work and we will be reporting back in due course.

Mr. Mackenzie: We can say we are not able to make any definitive recommendations and ask for additional time.

Mr. Ashe: I do not think we want to stick ourselves with a new time limit. We should leave it open-ended; it could be as soon as possible.

Mr. Chairman: We will leave it open-ended, and we will deal with Manufacturers Life at 10. We still need a little travelling time.

Mr. Haggerty: We have the other financial institutions and banks after this.

Mr. Ashe: That may not be until February or January, again depending on whether we can get rid of some of these other things on our plate, the estimates and the statements.

Mr. Chairman: Are we still inviting Mr. Blenkarn for November 6?

Mr. McFadden: I suggest that, yes.

Mr. Haggerty: What about the banks? We can wait until next week to decide that.

Mr. Chairman: We will put off the banks.

Mr. Haggerty: They are not ready yet anyway.

Mr. Chairman: The Bank of Montreal is ready.

Mr. Haggerty: Yes, but how many other banks are coming in? Did you say the Royal Bank? Are there five?

Mr. Chairman: We do not know.

Mr. Haggerty: Where are the other financial institutions we have not heard from? We should leave that.

Mr. Chairman: We know what we are to do. Thank you for your assistance.

Mr. Lavelle, thank you for your patience. I know you are a busy man these days.

Mr. Lavelle: We are all keeping busy at the Ministry of Industry, Trade and Technology.

Mr. Chairman: You can see what our time problems are too.

Mr. McFadden: This is like staff meetings at MITT.

Mr. Lavelle: It is too reminiscent of what goes on at MITT.

Mr. Chairman: We appreciate your coming before us. We have been wrestling with a number of items. As we have perhaps made you aware, we are trying to concentrate some of our thinking into the area of financial involvement and concentration. We are still open to be swayed in almost any direction.

MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY

Mr. Lavelle: I appreciate having the opportunity to appear before the committee. On my right is David Redgrave, who is the assistant deputy minister of policy and technology at MITT. Also with me is John Wright, a senior economist at MITT. We have copies of a presentation, which I would be happy to distribute at this point and then speak to it as we go along, if that is your wish.

Mr. Chairman: It is a good idea.

Mr. Lavelle: The last time I did not have a presentation, and I felt I held the committee up too long in reading a text.

Mr. Chairman: The last time you were before the select committee on economic affairs, the minutes of your presentation were most sought after, I recall.

Mr. Lavelle: I appreciate your saying that. I do not know whether the same level of excellence will appear today. This is a much more difficult issue, as we found when we decided to look into it. Certainly it is more difficult in terms of putting absolute, hard, cold facts together. We have attacked the issue in a sense of trying to give the committee an overview of where MITT looks at this issue of corporate concentration. Having done that in our presentation, we will be pleased to answer whatever questions we can.

Historically, looking at the whole issue of the Canadian economy, the highly protected and small domestic market in Canada led to an overly diversified industrial base with plants and production runs below world scale. This environment also encouraged the establishment of relatively small-sized firms geared to the domestic market. There were exceptions, particularly in the area of resource extraction and in banking, where large-scale operations prevailed and are still very evident to this day.

Many of the problems associated with the lack of scale persist today in some sectors, despite the considerable reductions that have taken place in tariffs and the growth of market concentration in some industries. Even though there has been a substantial increase in productivity in Canada in the last several years, we still remain significantly behind the United States in that area and it is a factor with which we have to live in terms of competing on a North American basis.

10:50

The Macdonald commission emphasized small scale as one of the primary disadvantages facing Canadian manufacturers. It found that in the 1970s

Canadian plants were only 60 per cent as large as their US counterparts and that they also tended to set up and retool more often to produce a wider variety of products. A high degree of foreign ownership also is a dominant feature of the Canadian economy. Many large, foreign, parent companies have established Canadian subsidiaries meant exclusively to serve the domestic economy.

If I was pointing out a particular instance or example of this, it would have to be in the service market or the aftermarket in the automotive industry, which is a subsidiary industry that is basically aimed at supplying only the domestic market from plants which are scale only in so far as Canada is concerned. The truncated nature of these enterprises is contrary to Canada's national interest. Frequently, these firms import more, export less and conduct fewer managerial and research activities in Canada than comparable Canadian controlled businesses.

In addition to higher production costs than their US counterparts, Canadian firms typically experience relative diseconomies in distribution, marketing, finance, advertising and other corporate functions. As a consequence, they have fewer technical and financial resources for research and development, innovation and expansion.

Those, of course, are not new problems facing the Canadian companies. Nor are these issues becoming less important; indeed they are becoming more important internationally because of the growing use by large companies of integrated development strategies to penetrate and capture markets around the world. In many companies, these strategies are linked to the economic policies of the government of their country of origin. I would like therefore to deal with the forces that give increased importance to scale and size as factors in business organization and development.

I mentioned previously the lowering of tariffs. This has been accompanied by a substantial growth in world trade. The final reductions associated with the Tokyo round are being phased in as of the end of next year. Of course we have just seen the beginning of the new round of General Agreement on Tariffs and Trade talks which will increase and accelerate the reduction of tariffs and nontariff barriers.

More important, perhaps, will be the outcome of the current negotiations between Canada and the United States on bilateral free trade. These developments could open up our markets further to foreign suppliers. This increased competition most often will come from giant enterprises with large-scale plants and highly integrated programs for research and development, sourcing, production, distribution and marketing.

Competitive pressures have also been growing, as is well known, from the enormous expansion and productivity achievements of the rapidly industrializing countries, such as Korea, Taiwan and Brazil. These countries have been radically transformed by the emergence of new large-scale enterprises which are assuming an increasingly dominant role in their economic development.

This is particularly evident travelling in Japan and South Korea where the major actors in the economy are mammoth companies which have a dominant position in their economies and obviously that is being encouraged by government as well as by the private sector.

As well, there have been rapid developments in science and technology

which are having an impact on worldwide industry structure, location and performance. New goods and service industries are being created which emphasize skills, knowledge and innovation and are characterized by intense competition.

Smaller corporations are an extremely important source of invention and innovative ideas. However, the very large corporations with international connections to production and marketing are strategic in the development and exploitation of new technological and market opportunities. Small firms frequently compete with and complement them in narrow product lines or services, or may supply them with parts or accessories. But, with some rare exceptions, smaller enterprises stand little chance of competing head on with large enterprises in their major lines of activity.

The accelerated rate of technological change also interacts with industrial organization and creates a greater need for scale and financial muscle. Canada is already lagging seriously in the level of R and D it undertakes and in the introduction and application of new technologies. Huge investments in technical and human resources are needed to develop and introduce innovative processes and products. Competitive dominance of large markets often is a corporate necessity for the undertaking of R and D and commercialization of new products.

Policy prescriptions which do not acknowledge these realities, such as those derived from a far too static view of the competitive process, will only aggravate our current problems and reduce our capabilities for competing in the future.

Corporate concentration may be higher in Canada than other major economies, including the United States. The 25 largest nonfinancial enterprises in Canada accounted for 24 per cent of total sales and 34 per cent of total assets in 1983. Similarly, the 50 largest exporting firms in Canada account for some 51 per cent of total exports.

Nevertheless, in terms of absolute size, Canadian firms are small by world standards. As I have emphasized, only large firms can achieve the economies of scale and muster the financial resources necessary for effective competition with giant foreign companies. We may well need higher, not lower, levels of concentration and specialization in some markets. We probably need to encourage medium-sized companies to develop into large-scale enterprises which are capable of competing successfully with large plants and organizations located in other countries.

We need, in addition, as in Japan, Germany, Sweden and France, stronger linkages between our sources of savings and industrial investment. In many cases, this is probably even more important for the growth of small and middle-sized businesses. I do not profess to have a detailed knowledge of our financial institutions and capital markets, but clearly innovative approaches in these areas are needed to finance industrial development and promote a more broadly based ownership of industrial capital. Japan is a particular case in point. The close ties between the banks and the industrial companies have been an important factor in the success of Japanese firms competing in international markets.

As we have seen in recent days, due to the tremendous accumulation of capital in Japan, that relationship between the industrial enterprises and the banks is becoming a much more potent force, particularly as Japanese companies, in the form of new investment, move offshore into North America and to other countries.

When dealing with corporate concentration and public policy, economists usually distinguish between market concentration and aggregate concentration. The former considers specific markets for commodities or services and asks what share of the market is held by, let us say, the largest four firms in the industry. Aggregate concentration, on the other hand, is concerned with the relative share of total economic activity, such as sales, assets, or output, accounted for by the largest firms in the economy as a whole, or in given sectors. Bryne Purchase of the Ministry of Treasury and Economics discussed these concepts when he appeared before you.

The federal government's competition policy in this country has generally sought to address market concentration and viewed a high level of market concentration as actually or potentially bad. Recent amendments to federal competition policy are an overdue recognition of the need for many Canadian companies to be allowed to restructure and to grow in order to be competitive in the current world economy. Given the increasing domination of many sectors of the international market by large conglomerates, it is necessary that Canadian industries have the flexibility to adjust to these new competing forces. Revising the criteria for assessing mergers is therefore a move in the right direction. At the same time, the new Competition Act establishes a more effective enforcement of the laws regulating competition. It is intended that this will lessen the dangers from potential abuses of power associated with increased market concentration.

The evaluation of aggregate concentration and its implications is much more complex and provides a series of dilemmas. The Ministry of Treasury and Economics and others have described the rapid growth of absolute concentration in Canada, and how much higher it is than in the US. Of course, the most recent book by Diane Francis expressed considerable concern about the concentration of economic power in the hands of a small number of families and conglomerates in this country--a concern which we understand is shared by a number of other people who have been making presentations to this committee.

Although the level of concentration is lower in the United States, concerns about the behaviour of large enterprises have also been expressed there in recent years. particular, much public comment has been made about the economic effects of the failure of the US executives to think in the long term and to give priority to issues such as research and development, excellence in design and production, quality control and marketing to compete successfully with Japan and other emerging industrial nations.

11:00

Some large Canadian enterprises, as well as the US firms, may well have been preoccupied with paper entrepreneurialism in the past. The challenge for policy is to keep the corporate world focused on the development of the industrial base and the creation of high-quality products for the global market. The recent recession of the early 1980s well illustrates how multinational companies can run into trouble. Size alone is not the answer, but it is a key feature of survivability.

Increased competitive pressures and the improvement of our competitive performance will require many adjustments in our economy. Our industries will undergo further rationalization, and in this process, aggregate as well as market concentration is likely to increase. This appears inevitable because larger firms are more able to assume the long-term risks and substantial investments required in undertaking major R and D projects, large-scale production and the development of foreign markets.

The location and structure of industries on a global basis is changing rapidly. In some respects, the mega-international corporations are now calling the tune. To compete, Canadian industry must have the commensurate organizational and financial clout as well as a skilled labour force.

In all sectors, in our view, our future industrial structure will need large, diversified management enterprises with the commitment, expertise and necessary concentration of resources to operate effectively in the global market; large, highly productive and innovative limited-product-line enterprises; and a diversified, efficient and adaptable small and medium-sized business sector with an increasing ability to compete abroad successfully in specialized products and services.

In summary, the ministry believes we need to give careful consideration to the role of mega-enterprises in the industrial development process. Their strategic importance in an overall industrial structure should be recognized, and they have to be linked to the consultative and planning processes of government. They should also be encouraged to focus more of their attention and considerable resources on the foundations of economic developments, such as R and D, to provide leadership that will benefit Canada as well as their organizations.

In closing, I thank you all for allowing the ministry to make this presentation. I hope it will assist you in your deliberations.

We have attached to the presentation a number of graphs that demonstrate and support some of the points I have attempted to make. Most important, I call your attention to the final three graphs, particularly the share of total exports accounted for by the 50 largest exporting firms, which is the third one from the back. It shows a comparison between Canada and, for instance, Sweden, France, Germany and Japan, particularly in relationship to Canada's position vis-à-vis the US.

The second-last graph is a comparison of exports of foreign-owned firms among the top 50 companies, which shows that in Canada, and indeed in Belgium, which is a country with a similar makeup of industrial structure, there is a very high level of foreign ownership in the exports as compared with Japan, which is virtually zero, or the US, which is one per cent.

The final page is a chart, as all of us know too well, on the expenditures on research and development compared with most of our main competitors.

Mr. Chairman: In the last chart, I take it you suggest that with stronger national companies, or larger companies, or a tendency towards larger companies, we might be able to produce more research and development in Canada.

Mr. Lavelle: Yes.

Mr. Foulds: Is it true that only Ireland and Iceland invest less in research and development than Canada?

Mr. Lavelle: I do not know.

Mr. Foulds: That was true in 1982, when I was running for the leadership of our party, because I used it often enough. Is it still true today?

Mr. Lavelle: It may well be true. I do not know the definitive answer. It may or may not be the case; I do not know. If you said it before, perhaps it still is.

Mr. Foulds: I said I know it was true in 1982. I do not know whether it is true today.

Why are you so hopeful that large companies will engage in more research and development than will small companies? That has certainly not been historically true in Canada, aside from Northern Telecom.

Mr. Lavelle: We would say the tendency of large, indigenous, Canadian-owned companies would probably be more to involve themselves in research and development than large, foreign-owned companies that carry on research and development in their own country. We say this because in instances that are obvious to us now--for instance, Northern Telecom, which is one, or some of the newer Canadian conglomerates--there is a higher level and appreciation of research and development. Both Dofasco and Stelco, for instance, which are Canadian-owned steel companies, do a fair amount of research and development.

Historically, one could say that none of them has done a great deal, but the tendency has been that if they want to remain competitive, they will have to do more in the future. It is more likely to be done here if it is a Canadian-owned enterprise.

Mr. Foulds: Has that not also been associated with the fact that the ones you picked as examples have had a definite product to market, whereas something like Canadian Pacific, which is into a number of different kinds of enterprises, I suspect does not spend nearly as much on research and development, even though it is a very large Canadian-owned company? It seems to me there are two factors that go along there: Canadian ownership, I agree, but also whether the company is product-oriented.

Mr. Lavelle: Yes, I would agree that it is product research and development, product development, in which they are facing international competition and that it is more important to remain either competitive or ahead of the competition.

Mr. Foulds: That is all for now. I just wanted to ask questions on that section. I have some others, but I will let other members go ahead first.

Mr. McFadden: The area this committee has been looking at for the past six weeks or so is Canadian financial institutions. How would you rate our Canadian financial institutions in terms of competitiveness and productivity?

Mr. Lavelle: That is a difficult question. Concerning the Canadian financial institutions, and in this case I am talking about banks in particular, if we are talking about their role in a global competitive phase, I would have to say the Canadian financial institutions are moving quite rapidly to be competitive. There are areas where they have not performed as well as they could have, but I would have to say that is basically a domestic problem. Internationally, the Canadian banks, particularly the Big Five, are moving fairly quickly to be internationally competitive by virtue of expanding their offices and their operations on a global basis. Indeed, I believe some of the Canadian banks are making more money offshore than they are in Canada.

If I were comparing, for instance, the situation between the Japanese banks and the Canadian banks, I would say our banks have a long way to go. But in terms of what the Canadian banks are doing in relation to what they were doing five or six years ago, I believe they have taken great strides.

Mr. McFadden: I guess they would fit into one of the areas you suggest for the future industrial structure: namely, they are large, diversified management enterprises, presumably with a commitment to operate in the global market.

Mr. Lavelle: Yes.

11:10

Mr. McFadden: I take it your feeling is that our financial services sector would fit the kind of model we would want for Canada in the future.

Mr. Lavelle: I would agree with that.

Mr. McFadden: How do you then position the whole question of the four pillars and the blurring, the interrelationship and the involvement of one financial sector with another? We are getting the blurring between the insurance companies, trust companies, banks and so on. Do you think it is a necessary part of this that there gradually will be a blurring and a loss of distinction between the four pillars?

Mr. Lavelle: I cannot give you any kind of expert opinion on that, but I would say some of the changes that are taking place--for instance, in Britain with the Big Bang or whatever it is called, the expansion of the financial institutions into other lines of financial endeavour--are things that are going to take place or need to take place in Canada. If that brings about a blurring of some of the lines as we currently know them, that will probably be a positive move.

We are basically saying it is going to be necessary for Canadian firms to have the opportunities for access to financial support and encouragement in all phases: the securities business, the banking business, the trust business and all of that. Ultimately, we have to try to produce those kinds of institutions in Canada, and changes that have already been announced in Ontario will lead in that direction.

Mr. McFadden: On page 7 of the brief, you talk about the desirability of establishing stronger linkages between industrial enterprises and the banks. You are referring here to the models in Japan, West Germany, Sweden and France.

One of the areas we have been looking at is the whole area of self-dealing and the conglomerates that have been created which have a financial institution under their corporate umbrella together with manufacturing enterprises, etc. My understanding is that in some of the countries mentioned here, the bank has a share interest in the enterprise it is supporting and there is a direct relationship between the bank and the manufacturing or other enterprise it is involved with.

In Canadian terms, it would bring us into self-dealing because in that situation, from what you are suggesting here, we would be encouraging our banks and other financial institutions to take a direct interest, potentially, in industrial enterprises of one type or another to increase the financial

resources available to those industrial enterprises. That is a pattern in other countries.

Forgetting for now the whole area of financial regulation, are you suggesting that as a desirable objective of industrial strategy there has to be more interrelation or more interconnection between industrial and financial enterprises and that we may need self-dealing if we are to imitate the Japanese and develop a really dynamic international enterprise that brings to the fore the financial resources of our financial institutions?

Mr. Lavelle: I would not at this point say that is a recommendation we would make. In the case of Japan and other countries, that relationship exists between industrial enterprises and some of the banks, and it obviously gives them a high degree of manoeuvrability when they are investing offshore or establishing new enterprises.

I would not recommend at this point that this has to be something we do in Canada. I would say that the banks should be able to provide the services required for Canadian companies to operate in the global market and that financing would be available to encourage the growth of Canadian companies. If there is a criticism of the banks, it has been that they have not provided good domestic service in terms of providing the capital wherewithal for smaller and medium-sized companies to compete internationally and to grow. It has been rather closely held. Presumably, as they get into a broader global market, the banking institutions will understand that requirement a little more clearly. Self-dealing and other matters we will leave for somebody else to make those recommendations.

Mr. McFadden: You have raised an important point. Some countries have chosen to allow their financial institutions to interact directly with industrial enterprise as a matter of policy. Obviously, we are very worried about that.

Mr. Lavelle: Absolutely, and it is a major factor. When you are dealing with a Japanese company, many times it is the company with the bank or the bank representing the interests of the company, not to mention the trading corporations and all the other apparatuses that are there. In South Korea, the large enterprises, the car companies and others that are investing abroad and have such a large degree of clout in the economy include, in most cases, banks such as the Hanil Bank. These institutions exist, and the relationship is much closer with the economic goals of the country than happens in Canada.

Mr. Chairman: You worry about that because it puts us at a competitive disadvantage. Is that what you are saying?

Mr. Lavelle: I am not saying it puts us at a competitive disadvantage. I am saying, in answer to an earlier question, the financial institutions will play a very important role in the competitive viability of Canadian industry. I am not saying or suggesting at this point that somehow or another the banks and the industrial arm of the economy should become one.

Mr. Chairman: We have heard a lot of concern about the Imasco situation in this country, and yet that is pretty common in Japan, I believe.

Ms. Hart: I have a supplementary on that. We have heard a lot about this self-dealing, and I take it you are indicating that our banks do not need to be in that close situation with an industrial company to enable small-sized and medium-sized Canadian firms to compete in the international market. Since

our banks have not done it, do you have a view you could share with us about what our banks or financial institutions need to encourage them to provide the financing that is necessary?

Mr. Lavelle: First, there is a very close relationship between the banks and industrial enterprises in Canada. It may have been a negative impact in some cases, but in many cases, Canadian enterprises have grown with the assistance of the banks. What I am talking about is the ability to compete globally, which means there will have to be Canadian financial institutions with the ability to move capital in line with the competitive nature of the global economy.

I am talking about providing services and financial input at this point, but mainly services. I am not necessarily saying that what has occurred in Japan or in other countries should be duplicated in Canada with respect to the almost contractual relationship.

Ms. Hart: I did not quite get the answer.

Mr. Lavelle: You are asking me what the banks should be doing. I did not come here to be a great defender of the banks, but the banks are trying to improve their ability to compete globally. They are establishing offices and institutions in foreign countries. They are getting into merchant banking and doing some of the things they have been reluctant to do. Undoubtedly, they will get into the securities business and other areas of activity that will allow them to provide services.

Ms. Hart: If we just leave the banks to their own devices, now that they seem to be in a more competitive atmosphere, will this situation rectify itself or is there something government should be considering to encourage the rectification?

Mr. Lavelle: The banks are highly controlled institutions by virtue of the fact that they operate under the Bank Act, and there has been an important infusion of competition in the banking industry in Canada by virtue of the fact that the B banks and foreign banks have entered the economy. Those types of things are positive. I have no recommendations to make as to how we could facilitate the banks being--what should I say?--more generous or more adaptable than they have been, but I would say there is progress there.

11:20

Mr. Chairman: This concern we have about horizontal integration is perhaps partly because of an American influence that will always be here. It does not exist in Japan at all as far as you can determine, does it?

Mr. Lavelle: I do not know whether it does.

Mr. Redgrave: Horizontal? In what sense?

Mr. Chairman: In Mitsubishi, as I understand it, the company has offices in the bank, and the bank has offices in the company, the shipping company and the insurance company; they are all intertwined. It is an established fact.

Mr. Redgrave: Yes.

Mr. Lavelle: It is hard, as I am sure Mr. Bond knows better than most people, to know what goes on in Japan.

Mr. Chairman: He gave me that information.

Mr. Lavelle: When you look at an industrial giant in Japan, it is hard to know who owns what and where. This is particularly so in the automotive industry, where the Toyotas and the Nissans have a large part or control of many of their parts suppliers; that is not generally known or visible to the naked eye until one goes to look at it. For instance, Nippon ??Dentsu, which is a massive corporation in Japan, is almost controlled outright by one of the vehicle manufacturers. That is why, when these corporations move to North America, the tendency is for their parts manufacturers to follow. That may be impelled on them, or it may be something that is done for business reasons.

In the Canadian context, we are a long way from that kind of organization.

Mr. Haggerty: I am interested in your comments on page 4, where you are leading into the global competition, and you say: "More important perhaps will be the outcome of the current negotiations between Canada and the United States on a bilateral free trade arrangement."

You talked about what is taking place now with the surtax put on the Canadian softwood industry and the effect it may have in the loss of jobs across Canada in this area. When we look at that and the position the US has taken on it, what would be the effect if the US were to take the same step it has taken here and apply it to the auto pact, which has been in force since about 1965? Some questions have been raised in Congress, where many congressmen are not happy with the auto pact and are thinking of reviewing it again.

It brings up the question of all the auto parts companies that are locating here, and particularly in Ontario, the current one being a West German firm that has announced it is locating in Fort Erie. When they locate in Canada, I suppose they look at the auto pact and feel they may have some future in production in Canada through it. Supposing the US takes the attitude it has taken here and gets into the auto pact, what security is there for the auto parts industry in Ontario? It could be severely handicapped, because the government today is giving out assistance to a number of these companies to locate in Ontario, and the US is very critical of the Canadian government, and of the provinces, in the matter of subsidies to industry.

Mr. Lavelle: The first part of the question, about the surtax that has been announced and passed into law by virtue of its being signed by the President, does call into question the violation of the automotive trade agreement. Under the arrangement between Canada and the US, that is to be a free trade arrangement allowing the duty-free movement of auto parts between both countries. The imposition of a surtax on parts going from Canada to the US could be judged as an impediment to that agreement.

Whether that is the ultimate challenge of that, I do not know; but it has dire implications for the automotive trade agreement and its longevity. That is something we are looking into and raising with the federal government, and from the federal government to the US. But the surtax is something that has been imposed on all imports into the US, and we hope a hue and cry will be raised by other trading partners of the US and have some impact after the forthcoming election.

With respect to the issue of the automotive parts plants that are coming into Canada, I guess the question of competition is a very important one

relative to the fact that it is our view that most of these auto parts plants are locating in Ontario for a couple of reasons; one is the investments that are being made by the vehicle manufacturers themselves and the requirement to have facilities close by the assembly plants.

In many instances, the auto parts companies themselves are not being subsidized by the government. In other words, except in some instances, we at the provincial level have not provided any kinds of grants or other assistance to get those plants to locate here. In the one in Fort Erie, as far as I know, there is no provincial or federal money involved.

When the US raises the question of subsidies on auto parts plants, it does so in mock horror because the US has provided billions of dollars' worth of subsidies to Japanese and other parts plants to locate in the US. Their munificence, if you could call it that, has been much greater than ours in terms of anything we have contributed to Toyota or to GM-Suzuki.

When the auto pact discussions come up, these issues are phoney ones or red herrings, as far as I am concerned. The same is true with respect to the duty remission programs, which they have raised in recent days, indicating that these are somehow controverting the Canada-US automotive agreement; again there is no particular evidence that this is the case.

Mr. Haggerty: When you talk about global partnership and global competition, if you look at the European common market, one of the advantages they seem to have there, and why the success is there, is the labour, which is pretty well equal. In other words, you cannot have a wide spread in the cost of labour, which affects productivity. I understand workers over there can move from an Italian automobile plant to a German one, and the wages are pretty well the same from one country to another. That is not true here, and particularly in the US.

Having listened to the debates in the House the other day, the issue is that perhaps we could be more competitive in Canada, but we are taking advantage of the overpriced American dollar, the 32 cents or 35 cents on the dollar. That is where the US is having problems in its trade imbalance. The US dollar is overpriced, and that is one of the reasons why they cannot be competitive. Now, with that 15 per cent surtax on top of the value of the US dollar, compared with the Canadian dollar, they are going to get lumber for about half the price. They are working it to their advantage.

I am concerned that the same thing could happen with the auto pact in terms of the action taken by the US government when it talks about free trade. Perhaps we should be looking at a North American common market to offset some of these tariffs, now that we are in competition in terms of tariffs between the two countries. Eventually, the stand that Canada has taken in the US is that the auto pact may be next in line.

Mr. Lavelle: I would react to that in this way. In the automotive sector, and indeed in the softwood lumber sector, when one discounts the relationship between the Canadian dollar and the US dollar, the Canadian product is still more competitive than the US product. That is an important consideration in looking at the operation of the automotive agreement in particular, because the wages in Canada, excluding the exchange rate--or including it, whichever way--are significantly lower than they are in the US.

The US has problems besides the value of its currency. It has a high degree of mature industries that are operating in some cases with high-wage

components. This is causing them competitive difficulties, and it is showing in terms of their trade balance over and above the relationship with the dollar.

11:30

The other point you make is about the European Community, which has never been a favourite example of mine. I had the great benefit of living in France for a couple of years in the late 1970s and early 1980s, and I watched the European Community very carefully. I find it a very bureaucratic process, fraught with a high degree of subsidies, particularly in the agricultural sector. I was never impressed with the ability of people to move beyond their national borders. The case in point is where they have the workers who come into the car factories for time when the employment picture is positive; then, when it turns down, they are moved out of the country.

My personal view is that a common market is not the approach. The auto pact, where we have guaranteed production and employment requirements in Canada, appears to be a better operation; certainly, in the auto sector it has been.

Mr. Mackenzie: I want to raise a concern with you in a more general way. I like your paper. I find it interesting and well done and yet at the same time a little bit of a disturbing document. It is to me very much an industrial and commercial overview, and it seems to be saying, "Bigger is necessary." I am not sure whether in the document you are saying, "Bigger is better," but it seems to me you are saying, "Bigger is necessary."

My concern, and I see the argument, is that it seems to fly in the face of the concern that a number of us have about the kind of concentration we have in this country, the kind of ownership problems we have and the immense power that can leave in certain people's hands. In other words, it does not seem to address the issue--I cannot say it is a sovereignty issue, because you certainly make the ownership arguments--on a control or social level, and I do not think it was intended to. That is probably half the battle that is going through the minds of most of us. We know that for a good many years the US has had much stronger antitrust legislation than we have had.

The document says, "Hey, we have to make this argument or this larger issue will face us; it is important in terms of productivity and world trade." However, it does not deal with the issue of control, which is bothering so many of us. I know it is an overview I am putting to you more than anything else, but I wonder if you have any comments on that.

Mr. Lavelle: I think you are quite right; we did not try to get into the motivation of particular organizations that were big or where concentration has taken place.

If I were to characterize the paper, it would be that bigger is not necessarily bad. There are institutions and organizations, both large and small, that do not behave in the economy in a morally or socially responsible way. It is my personal view that we have rules and laws that are implemented by parliaments and Legislatures which should be able to control the kinds of excesses that have occurred, for instance, in some large multinational corporations.

I would go on to say that in most cases, and I am speaking from my own experience, there are many large companies, some of which have very negative

histories, that have been able in recent years to overcome some of their more nefarious tendencies and respond to the social good as well as the economic good of the country.

I would characterize our paper as saying that being big is not necessarily. In high degrees of concentration in some of the areas where Mr. McFadden made reference, there are difficulties that obviously should be legislated against.

Mr. Foulds: I have a series of unrelated questions, but your paper stimulates them.

First of all, you indicate that the outcome of the current negotiations between Canada and the US is going to have an important effect on Canada's economy. Do you have any prediction about what that outcome is going to be?

Mr. Lavelle: I would say that is a leading question.

Mr.:Foulds: You are darned right it is.

Mr. Lavelle: At the moment, if one could project where the outcome would be, I would guess it would be at a position considerably smaller or shorter than the federal government thought when it initiated the discussions. In other words, because of the difficulties that are occurring--not only economic difficulties but also difficulties with respect to softwood lumber and other problems that have arisen--the likelihood would appear to be that the ambitious plans for a comprehensive free trade arrangement between Canada and the US are somewhat circumscribed.

What that will mean, I do not know. I would expect there might be some form of dispute settlement mechanism or some sort of commission established, perhaps working groups established in certain areas of activity between the two countries, but that would be as far as I could predict it would go at this time. There is a great deal of uncertainty at the moment.

Mr. Foulds: Did Ontario have access to the federal government's studies on the subject?

Mr. Lavelle: We have had access to some of the studies, some of the working papers. Expurgated parts of federal studies have been made available to the Ontario government, but we have not had access to all of them.

Mr. Foulds: I find that really strange, I must say. With the kind of country we have, structured constitutionally and economically the way it is, I find it strange that the provinces did not have full access to federal information. That is my comment; it is not something you need to comment on.

Mr.:Lavelle: I would not dare.

Mr. Foulds: Later on in your paper, on page 7, you said Canada may well need higher and not lower levels of concentration and specialization in some markets. Can you elaborate on what markets those would be?

Mr. Lavelle: Let me go back to an example, which I think is important. What comes into my mind is that the automotive parts industry in Canada has been characterized by a lot of very small Canadian-owned companies, some fairly large multinationals and some middle-sized companies that remained quite stagnant for many years. In the late 1970s and going into the 1980s,

many of these companies began to grow, particularly the Canadian companies, for a number of reasons. Particularly in Ontario, there was a strong degree of support from governments to encourage the growth of the auto parts industry. There was a tremendous expansion in the automotive industry. All these things had their impact.

The other factor was that some of the large multinational companies that were here started to withdraw from Canada; they started to divest themselves of their automotive operations. I am thinking particularly of Borg-Warner, which was in the aluminum radiator business in Oakville; it withdrew from the automotive industry because it started putting its resources into industries and areas of activity that had higher rates of return. That left the opportunity for Canadian companies to expand.

If you look at Magna--that is the example I refer to, but there are others--it has gone from being a very small company to the point where its sales are now \$1 billion annually. Everybody knows the story. That company has become a major force in the worldwide automotive parts industry. There are other Canadian companies that are in the process of doing the same thing. It is true of some of the computer companies. It is true of Northern Telecom. It seems to me these things are positive developments, putting aside the difficulties Mr. Stronach currently has with Ottawa.

11:40

There are other companies and corporations such as Woodbridge Foam Corp. that have provided jobs in Canada. They are doing research and development in Canada. Presumably they are returning some of the benefits of their offshore profits to Canada. They are highly regarded institutions. I would say this is a positive development.

Mr. Foulds: Is this concentration primarily in the manufacturing sector? Is that where you see the growth possibilities as opposed to the service sector, the financial sector and the resource sector?

Mr. Lavelle: No, it is going to have to be right across the spectrum of the economy. Regarding the expectation in the service sector, I think the Premier (Mr. Peterson) and others have referred to the tremendous growth that has taken place in the service sector in terms of the number of jobs it is creating and the investment that is taking place. This phenomenon will probably occur in other sectors as well.

I think of the changes that are going to take place in the securities business. When one compares securities companies in Canada to those with which they have to compete in New York or Tokyo, it seems to me that they will have to get larger to be able to compete and to provide the services Canadian corporations are going to need worldwide.

Mr. Foulds: They are doing that at the present time.

Mr. Lavelle: They are doing it.

Mr. Foulds: Largely through mergers and so on.

Mr. Lavelle: Yes.

Mr. Foulds: You take a couple of opportunities in your paper, cautiously but fairly firmly, to attack paper entrepreneurialism. Is that a fair judgement?

Mr. Lavelle: Obviously, we look at the development of growth and expansion in terms of value added as opposed to simply taking--

Mr. Foulds: Agglomeration or accumulation of assets.

Mr. Lavelle: Yes.

Mr. Foulds: From your point of view it is paper entrepreneurialism. Has it actually added any jobs in Ontario?

Mr. Lavelle: That is a question I cannot answer. Mr. Redgrave, you may have a view. I do not know that it has.

Mr. Redgrave: The reverse might be true if it results in shakeouts and squeeze-downs. If you get the reverse impact, you get people laid off. If it is a purely corporate type of enterprise, an accumulation of mergers, you are likely to get white-collar workers--

Mr. Foulds: The way I see it that is the big danger.

Mr. Redgrave: Our point is that it depends on the end product of the process. If it is simply an accumulation for the sake of accumulation or to hide the money, what is the benefit?

Mr. Foulds: Yes. What do you mean on page 12 when you talk about management enterprises? What are management enterprises? You outline the three areas where you think our future industrial structure is going to need development and growth. You talk about diversified management enterprises.

Mr. Lavelle: That is just a way of talking about large, diversified corporations as management enterprises. I would say it has no particular meaning other than that.

Mr. Foulds: You just mean companies.

Mr. Lavelle: Yes.

Mr. Foulds: Okay.

Mr. Lavelle: It is a word that is maybe more impressive than--

Mr. Foulds: I thought I was missing something in the economy and there was a new area of activity that I had--

Mr. Lavelle: No. It is just a company.

Mr. Foulds: Okay, fine.

Mr. Lavelle: It is a buzzword at the Ministry of Industry, Trade and Technology--management enterprises. We are trying to demonstrate expertise we do not have.

Mr. Chairman: You almost got it across.

Mr. Foulds: That is a refreshingly frank answer.

Ms. Hart: In that vein, perhaps you could tell me what "diseconomies" are. It appears on page 3 in the second paragraph.

Mr. Lavelle: Diseconomies of scale is a reference that instead of providing for economies of scale, you are going the other way around, making it more difficult for the corporation or the company to be competitive.

Ms. Hart: Is that a term with some currency somewhere?

Mr. Lavelle: Diseconomies of scale is a viable phrase.

Ms. Hart: Really?

Mr. McFadden: Even management enterprises.

Mr. Lavelle: That is right.

Mr. McFadden: I know the orientation of the Ministry of Industry, Trade and Technology historically has always been toward the manufacturing sector, although other sectors are dealt with, the resource sector and so on. On page 2, you talk about the productivity levels of manufacturing. As you will recall, in the last budget, the Treasurer (Mr. Nixon) submitted to the House a budget paper dealing with the service sector. We all know that the overwhelming majority of new jobs seem to come in the service sector and so on. How does the Canadian or Ontario service sector stack up against service industries in other countries from the point of view of productivity? Do you have any figures on that at all?

Mr. Lavelle: I first want to do a bit of a commercial for MITT. Indeed, the reputation of MITT is that we are interested only in the manufacturing sector. I want you to know that we have taken that epithet and tried to turn it around. We are in the process now of reorganizing the ministry. A lot of people forget that at MITT, we are very deeply involved in the small business sector, which is a large sector of the service sector. Currently, we are establishing a new division that will be named "small business services," with some capital projects. In that, we will establish what we will call, for lack of a better word and perhaps it is not the right word, a "service secretariat" where we will try to put in one place all the activities in the government and give them some focus.

As you know, the people in the service sector really do not have any home. There is, of course, in the hospitals and there is in the financial institutions, but there is a whole other range of activities that do not have any input into government policy. We are trying to provide it. Finish of the commercial.

The answer to your question is that I do not know the answer. I do not recall that those comparisons were made in the booklet that was prepared and released by the Treasurer. I think the answer is that in some sectors we are quite competitive internationally and in others we are not. This is not much of an answer, but we can try and find those answers and get them back to you.

Mr. McFadden: I was curious because I know that a lot of Canadian companies in engineering, management consulting and so on seem to be very competitive internationally in breaking into world markets and winning tenders. I presume this indicates they are productive in what they do. They must have a fairly high level of productivity to be successful in tenders and securing international business. That was what I was trying to get a handle on. Are there any indices known that would compare, say, engineering companies worldwide, or management consulting firms, ad agencies or whatever it might happen to be? I know of the difficulty in quantifying that. Essentially it is on a contract-by-contract, job-by-job basis.

Mr. Lavelle: That is one of the difficulties in coming to grips with services in the General Agreement on Tariffs and Trade or in the bilateral negotiations between Canada and the United States. The quantity is very hard to put down and that is where they will have difficulty in trying to make any arrangements between the two countries. When you look at engineering, for instance the Lavalins and others who have been very successful internationally, at medical devices and many of the banks and financial services, the evidence suggests that we are competitive in those sectors. The United States is quite apprehensive about opening its financial services sector to competition from Canada.

We will try to find whether there are any quantified numbers that make those comparisons.

11:50

Ms. Hart: I am interested in your last comment. Because the Americans seem to want services on the table at the next GATT round, I would think they believe they can compete in services better than anyone else in the world. Am I peculiar in that view?

Mr. Lavelle: That is true in some services, but they have specifically asked that the financial services aspect not be on the table.

Ms. Hart: That is right.

Mr. Lavelle: That is one of the dichotomies of the American competitive situation at the moment. They have a tremendous surplus in services while they have a growing and chronic deficit in goods. There is also a relationship between goods and services and other factors that comes into play.

Mr. McFadden: Is it not right that our banks are not particularly favourable to having a total opening-up of the Canadian banking industry? As I understand it, discussions are going on. Am I wrong about this?

Mr. Chairman: Mr. McFadden, can you sit up? I did not get the first part of your question.

Mr. McFadden: I am sorry. My understanding was that there are discussions going on but that they are more between the Department of the Treasury and the Department of Finance and that the subject has been removed from the discussions under Mr. Reisman's umbrella. Am I wrong about that? The information we got some time ago was that discussions were going on in the financial services area, but that they were not falling under the umbrella of Mr. Reisman's and Mr. Murphy's offices.

Mr. Lavelle: I think you are right. There is a division among the banks in Canada as to how they see free trade developing and whether it will be beneficial. The United States position has been that financial services should not be on the table. When Mr. Baker made that assertion, there was a hue and cry from Canada that they should be. The most recent advice I have had, which has to do with the fact that we are now on the verge of negotiating with the United States, is that financial services will not be part of those negotiations. If they are raised, it will be quite a way down the road. You are right.

Mr. Chairman: I guess it was inevitable that some of our discussion would revert to the trade talks, which are on all our minds today.

Mr. Lavelle: They are on our minds every day.

Mr. Chairman: I am sure they are. If there are no other questions, I want to thank you very much for your presentation. Mr. Mackenzie summed it up by saying it was an excellent overview and it will be extremely helpful to us in our deliberations. We appreciate your coming.

Mr. Lavelle: Thank you.

The committee adjourned at 11:54 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CORPORATE CONCENTRATION
ORGANIZATION

THURSDAY, OCTOBER 30, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Also taking part:

Mitchell, R. C. (Carleton PC)

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, October 30, 1986

The committee met at 9:22 a.m. in committee room 1.

DRAFT INTERIM REPORT

Mr. Chairman: We have an interesting agenda before us this morning. In view of our decision last week not to ask for an extension to prepare a report on corporate concentration, we must have our report approved today and present it to the Legislature this afternoon, bearing in mind that we will be continuing to hear evidence on this issue, with Mr. Blenkarn appearing next week. Thereafter, we can write another report.

An agenda has been prepared for the committee that includes a review of Bill 26, which has been referred to this committee since we sat last. I do not know whether anybody wishes to comment on the fact we have been sent a bill. There may have been some perception that a clause-by-clause review of bills would not be occurring.

In any event, I suggest to the committee that we commence this morning to prepare and finalize our report, which is being called an interim report, I suppose, and then move on to discuss the timing of the other matters we wish to deal with. Does anyone have any concern about that?

Let us take a look at the material that has been prepared by Mr. Bond, which is in front of you. It is pretty simple and straightforward. Perhaps I can read through it quickly, and if anyone wishes, he can stop me at the end of a sentence and we can discuss it.

"On July 10, 1986, the standing committee on finance and economic affairs was given its terms of reference by the House, which included the mandate: 'to consider the issue of corporate concentration and takeover activity as it relates to the province of Ontario and to report its recommendations for appropriate Ontario response to the Legislature by October 31, 1986.'

"The committee decided that, given its broad mandate, it would begin by looking at the question of concentration in the financial services sector." That is one clear decision we made. Mr. Bond continues: "To date, the committee has had approximately four weeks of hearings, has heard from numerous witnesses, both from the public and private sector, and has reviewed the material presented.

"The committee has not had sufficient time to hear from all of the concerned groups, institutions and individuals who have expressed a desire to appear before the committee. Numerous specific issues such as self-dealing, conflicts of interest and the regulatory role of independent outside directors of financial institutions have been pointed out as requiring further study."

I wonder whether anyone wants to stop there and make any suggestions on that sentence or expand on that sentence.

Mr. Mackenzie: I think at least one additional point needs to be raised. In addition to self-dealing, conflicts of interest and the regulatory

role, what got a fair amount of comment was the whole question of the degree or percentage of ownership involved. We would be remiss in not at least making the observation that this was also one of the concerns. There seem to be so many different views on it.

Mr. Bond: Ownership restriction.

Miss Stephenson: The regulatory role of independent outside directors is not the only directors' role that has been raised. The role of directors in a general way is one thing we have heard about frequently.

Mr. Ferraro: And the appointment thereof.

Miss Stephenson: Yes. The appointment and role of both inside and outside directors.

Mr. Bond: We can say, "the appointment and role of both inside and outside directors."

Miss Stephenson: And the recruitment.

Ms. Hart: Or lack thereof.

Miss Stephenson: Can I be niggling grammatically? It would be better if we said, "had been identified as requiring further study." Also, eliminate "any" in the final sentence and make it "to make definitive recommendations at this early time."

Mr. Chairman: For those of you who do not have it, the summary of recommendations that David prepared for us a couple of weeks ago has in its table of contents concentration, ownership restrictions, integration, solvency, self-dealing, conflicts of interest, role of directors, industrial-financial comingling, reform of financial services legislation and the Ontario Loan and Trust Corporations Act as matters that are--

Mr. Mackenzie: Because we have to highlight the areas where there is some concern, and there are major ones, I have a hunch that a more extensive list--perhaps the way David had it in those recommendations--should go into that paragraph. It also sets the basis for our not coming to any definitive conclusions yet in the committee, which is pretty obvious when people take a look at it. Without making it a major document--because I still do not think that if we are doing this kind of interim report, we want a lengthy one--it should at least give the reasons we have not and the obvious areas we have to take a look at the next time around.

Miss Stephenson: I agree that list needs to be there. I hope we will not simply list the recommendations made by those who have appeared before us but will include the issues we have raised, about which some of those who appeared before us had no recommendations but we certainly had--

Mr. Mackenzie: Identifying the key points but not attributing any statements to anybody.

Mr. Chairman: Perhaps what you are suggesting is that we reword the sentence to--

Mr. Mackenzie: Make it more comprehensive. I think the points David outlined are really the ones.

Mr. Chairman: We can say, "The numerous specific issues, such as"--

Miss Stephenson: The table of contents would provide the list.

Mr. Chairman: The word "concentration" does not mean much.

Miss Stephenson: Ownership restrictions, integration, solvency and self-dealing--all these things mean something to us. I think that instead of just "role of directors," it should be "recruitment, appointment and role of directors." Industrial-financial commingling has certainly been an issue, and the Big Bang has not helped it. It was not very big.

09:30

Mr. Mackenzie: We can redraft that paragraph. I am sure David can do it.

Mr. Bond: I will leave out "concentration" since that is--

Miss Stephenson: It is the overall subject.

Mr. Bond: --and just include the final nine points with your amendment, "recruitment, appointment and role of directors."

Mr. Chairman: Where does that leave what David had in about the regulatory role of independent outside directors?

Miss Stephenson: That is part of the recruitment, appointment and role of directors. Each of those three has been part of our discussion with most institutions.

Mr. Chairman: I am wondering if David's initial wording of that is a little clearer and should be left in. Perhaps you are saying it should not.

Miss Stephenson: I am not sure we want to differentiate totally between the required ethical role of the internal directors, if you like, and what we perceive as the required ethical role of the external directors. Surely there is some commonality there.

There are some specific things regarding external directors that the committee felt rather strongly about. I am not sure we should separate those in this list which we are trying to give simply to provide some understanding of the scope of the areas that we feel need to be examined more fully.

Mr. Chairman: If that is the consensus, we can replace it with more general wording.

Miss Stephenson: Although his list is a very good one, I think.

Mr. Chairman: So is it the consensus that we let David redraft that sentence and we will abide by his judgement on it?

Mr. Mackenzie: I do not think I would have any problem on the basis of the discussion we have had.

Mr. Haggerty: Mr. Chairman, in the letter directed to--I guess it would be to Mr. Nixon, is it?

Miss Stephenson: No; it goes to the House.

Mr. Haggerty: The House; yes. He should also put in there the other areas in which responsibilities have been placed upon this committee. We are going to be dealing with estimates and then the Treasurer's prebudget things. It just does not permit the time.

Mr. Chairman: Should that be in the report, or should that be in my comments and explanations?

Mr. Haggerty: I feel there are other areas of responsibility we have besides this, and the extra work load that has been placed upon the committee is one of the reasons why this is going to be delayed.

Miss Stephenson: That is not really part of the report of our activities in this area to the House.

Mr. Chairman: I know. Perhaps I should say something here because you are talking about sessions in January or February, if I am not mistaken.

Mr. Haggerty: That is in Mr. Bond's draft.

Miss Stephenson: Why did you say February?

Mr. Chairman: We will get to that shortly. We had some discussion off the record before we started on the appropriateness of that.

As far as the sentence we were just dealing with is concerned--the middle sentence of the last paragraph on page 1, which is the crux of our report--we are prepared to let Mr. Bond change that in accordance with the debate we just had, as I understand it. That change will be prepared and ready for me by this afternoon's session. Do we need a resolution?

Miss Stephenson: Could we finish going over the last three paragraphs--

Mr. Chairman: I thought there was something we were leaving unchanged.

Miss Stephenson: --and then we can have that motion.

Mr. Chairman: "The standing committee on finance and economic affairs is not prepared to make any definitive recommendations at this early time."

Mr. Bond: Will we drop "any"?

Mr. Mackenzie: Would that be part of the same paragraph?

Miss Stephenson: Make it a separate paragraph. In fact, in subject matter it belongs more closely to the following paragraph than it does to that one.

Mr. Chairman: Yes. So it could be the lead sentence in the next paragraph. "The committee feels that concentration in the financial services industry is a very important matter that requires additional time. We wish to ensure a comprehensive review of the subject that will satisfy not only the Treasurer of Ontario, who initially suggested the committee's terms of reference, but also the committee itself."

Clerk of the Committee: And the Legislature?

Miss Stephenson: It is really the Legislature rather than anybody else. It does not matter what the committee thinks, or even what the Treasurer thinks; it has to satisfy the Legislature.

Mr. Chairman: Do you want the word "Legislature" instead of "the committee"?

Miss Stephenson: I would say, "the Legislature, the Treasurer, who initially suggested the committee's terms of reference, and the committee," rather than "not only...but also."

Mr. Chairman: "Satisfy the Legislature, the Treasurer of Ontario, who initially suggested the terms of reference, and the committee."

I will read the next paragraph through.

"The standing committee on finance and economic affairs requests that the House extend its mandate by allowing it to sit in the intersessional period between January and March 1987, during which time the committee will proceed with further hearings and discussions."

Mr. Haggerty, before we commenced this morning's meeting, we had some discussion of that. My own understanding of the situation is that our terms of reference generally are large enough to permit us to continue our work and prepare a final report without any other instructions from the Legislature.

We most definitely will want intersessional meetings. We hope we will be involved in budgetary matters in the winter period as well. The question this paragraph raises is whether it would be helpful to us to have an externally created deadline as opposed to the extra discipline needed to create our own deadline. Miss Stephenson indicated we should probably decide to prepare a report before the end of the fiscal year, which is March 31.

If we do not have any order from the Legislature to do that, will we still do it? Would we be better to ask it to order us to do it? What is the view of the committee?

I think Mr. Bond prepared this paragraph without the same understanding I have about what the terms of reference of the committee are. He was thinking we needed some sort of extra resolution of the Legislature.

Miss Stephenson: Would it not be appropriate to suggest in this report that the standing committee will be requesting not an extension of the mandate, because we are not requesting that, but permission to sit in the intersessional period? That is the request we must make.

We can simply say we will be requesting that at the appropriate time, which is just before the end of the session, to complete the report, which the committee has determined must be delivered to the Legislature before March 31. If we want to set an earlier deadline internally, we can do it, but at least everybody will know we have set the deadline for ourselves of March 31.

Then the committee will have enough flexibility to order its business now and in the intersessional period, because as Mr. Haggerty says, we may have budgetary activity, we may have a whole lot of other things to do as well, and we will have to establish what that timetable is going to be to accommodate whatever activity is necessary here.

9:40

Mr. Haggerty: Perhaps "mandate" should be changed to "hearings." I understand there are other delegations that want to appear before the committee.

Mr. Chairman: Yes.

Clerk of the Committee: You are requesting--

Miss Stephenson: We will be requesting permission to sit.

Clerk of the Committee: You will be requesting permission to have further hearings. You are not requesting to change the mandate, which is corporate concentration; you are requesting extra meeting times for your use.

Miss Stephenson: We will be requesting permission to sit during the intersessional period to accommodate additional hearings so the committee may report to the Legislature by March 31, 1987. We will then have declared that we have set a deadline. If the Legislature approves this, it has also set the deadline; it has agreed with our deadline. You have it both internally and externally.

Mr. Chairman: "The standing committee on finance and economic affairs will be requesting permission to sit in the intersessional period"--

Miss Stephenson: --"to accommodate further hearings in order that it will be able to present a report to the Legislature before March 31, 1987."

Mr. Chairman: Do you have it exactly?

Mr. Bond: "The standing committee on finance and economic affairs will be requesting permission to sit in the intersessional period to accommodate further hearings in order that the committee may present its report to the House by March 31, 1987."

Mr. Chairman: That sounds good. They have approved it, as you say, and yet--

Miss Stephenson: We have set the deadline.

Mr. Chairman: In essence, we are still in control, except for the permission to sit. Does that make sense?

Clerk of the Committee: It is very reasonable, because when the House is not in session, you can request permission to sit, which we did during the summer. You had your hearings. It is a reasonable request for more time to finish your hearings. In the meantime, during the session, you can do your bills or estimates, whatever the committee decides.

Mr. Chairman: We can schedule our own time.

Mr. Mackenzie: I tend to agree with it. I have one reservation or caution on it about whether we should be as specific as March 31.

Miss Stephenson: That is only because it is the end of the fiscal year.

Mr. Mackenzie: I wonder only for the reason that this is probably going to be a crazy House from here on in.

Miss Stephenson: Is that a psychiatric prognosis?

Mr. Ferraro: It is a statement of fact.

Mr. Chairman: The statement of today.

Mr. Mackenzie: If we are likely to be back here in January and February, which is a possibility at least, I am assuming that if the House continues, we may very well not come back until April or so.

Miss Stephenson: But there still should be an intersessional period, which is what we are requesting.

Mr. Mackenzie: I have no difficulty in trying to put some date on it. I am just not sure that I would be that specific, given the nature of the whole place.

Clerk of the Committee: We could leave it as "early 1987."

Miss Stephenson: Or say "the spring of 1987."

Mr. Mackenzie: That is what crossed my mind.

Miss Stephenson: That gives you a three-month flexibility, as it goes on from March 21.

Mr. Chairman: "Report to the Legislature in the spring of 1987." Does this give us any obligation ever to report?

Miss Stephenson: Is that sufficient internal discipline?

Clerk of the Committee: Yes. It gives permission to the clerk to--

Miss Stephenson: To hound us.

Clerk of the Committee: Not only that, but also to speak to the individual groups outside to prepare an agenda.

Mr. Chairman: That is true.

Miss Stephenson: They must have it. If you say early spring, that means they think it is all done before April, which is fine.

Mr. Mackenzie: They may very well come back and say they want a more specific date; I do not know. I think we are probably wise not to tie ourselves down totally to March 31.

Miss Stephenson: Let us say early spring 1987 then.

Mr. Chairman: The first full moon, 1987.

Clerk of the Committee: It permits us to find out who wants to appear, even though the dates might not be specific.

Mr. Mackenzie: Early spring would be better than saying March 31.

Mr. Chairman: Are we obligated to do a report if we give that date?

Miss Stephenson: Yes, absolutely. That means it has to be delivered by June 20, for sure.

Mr. Chairman: June 21 is late spring.

Miss Stephenson: No. It is summer.

Mr. Chairman: All right. Do we have that? Do we need our last sentence?

Mr. Haggerty: Just be careful. In June that may not be.

Mr. Mackenzie: While Mr. Haggerty's suggestion may be useful in terms of arguing, the fact that the economic outlook of the Treasurer (Mr. Nixon) and various bills will be coming to us, as well as some estimates time apparently, should probably not be included in this report, which is reporting just on the corporate concentration. It can be made in any brief remarks the chairman is making in terms of the load that has been added on to us. I do not think it should be in the specific report that goes into the House, an interim report such as this. I think it is more appropriate in the arguments, as long as the chairman does not get carried away with his arguments.

Mr. Chairman: I will try not to get carried away this time. I will get my fingers rapped.

Mr. Ferraro: Make one mistake and they hold it against you for ever. Let he who is without sin throw the first stone.

Mr. Chairman: Miss Stephenson moves that the report, as amended, be presented to the Legislature by the chairman.

Miss Stephenson: That is all we have to do, with brief explanatory notes.

Mr. Chairman: With brief, careful explanatory notes and the proper admonition to the federal government.

Mr. Haggerty: I do not like the words about the report being amended.

Miss Stephenson: Then "the report."

Mr. Haggerty: That is right.

Miss Stephenson: I just meant if we were changing it right now, that is all.

Mr. Haggerty: We have asked Mr. Bond to bring in what he was trying to take from seven or eight committee members, their views, and put them into a package. Now we have made some changes, but I would not say it was an amended report.

Miss Stephenson: All right, fine: the report.

Mr. Bond: Can it be called the interim report?

Mr. Chairman: Can we call it the interim report, even though they have asked for a report?

Miss Stephenson: If we define it as an interim report.

Clerk of the Committee: You are defining it as an interim report, and you are giving the reason you cannot produce the final report.

Miss Stephenson: It strengthens the argument we put in for an extension and intersessional time.

Mr. Chairman: The Legislature did not ask for an interim report, though; it asked for a report.

Miss Stephenson: We can call it anything we want.

Mr. Chairman: Can we call it the Ontario Trade Review? Is there any more discussion?

Motion agreed to.

Mr. Chairman: Is there any desire on the part of anyone to have a representative of each party meet to look at the final draft, or are you happy? No? Okay.

Miss Stephenson: You and David are completely trustworthy. Besides, we have it all on Hansard, and if you do not produce what was said, you will be in deep trouble at the next meeting.

Mr. Chairman: That is terrific. The record should note that at 9:47 we had our report passed.

Miss Stephenson: That sounds a good deal more ambitious.

ORGANIZATION

Mr. Chairman: Looking at the agenda, Mr. Carrozza suggested we look first at item 5. Mr. Blenkarn is appearing--

Clerk of the Committee: Next Thursday.

Mr. Chairman: Is anyone appearing with him? Is anyone representing the minority viewpoint?

Clerk of the Committee: I have not been able to contact the people in the minority, but he will speak to us officially as the chairman of the federal standing committee on finance and economic affairs. Our committee has suggested a joint meeting in the spring, with a further suggestion from the committee to speak to other members. He will be open to our questions and suggestions.

Mr. Bond: I understand that committee will be turning its attention once again to financial institutions.

Mr. Chairman: It is? Good.

Miss Stephenson: January would be probably be a great time to have a joint meeting, because they will have begun.

09:50

Clerk of the Committee: There is no reason the committee cannot plan for that if it gives me authority to speak to them about some dates that will be mutually beneficial for both committees to meet, either here in Toronto or in Ottawa.

Miss Stephenson: I suppose it is difficult to determine dates right at the moment. Surely it would be wise to begin preliminary planning for that kind of joint meeting, because it would be mutually beneficial if we could get major representation of that committee plus our own committee.

Mr. Chairman: All right.

Clerk of the Committee: You should give me permission to proceed with those suggestions.

Mr. Chairman: Permission has been given. I point out that the scheduled hearing next week is at 9 a.m. I am hearing off-the-cuff representations on starting time. If we want Mr. Blenkarn to appear at 9 a.m., it will be courteous of us to have a quorum here at that time. I will leave it at that; all right?

Clerk of the Committee: If you wish to change the time, please let me know.

Mr. Chairman: All right.

Miss Stephenson: We have a problem today because three of the members are out of town. A couple of them will be back by noon. It is unfortunate they just coincided.

Mr. Chairman: For the record, I note you were here at 9 a.m. this morning.

Miss Stephenson: David and I and our Hansard recorder were here at 8:50.

Clerk of the Committee: I was here at nine.

Mr. Mackenzie: I will make an effort to ensure that, in spite of his reservations about the early starting, Jim will be here at nine o'clock. Unfortunately, I will be down at a steelworkers' school in Kingston that morning; so I am afraid I will miss it myself.

Mr. Chairman: Let us look at agenda. Prior to going on the record this morning, Mr. Mackenzie, you read out a list of suggestions from Mr. Foulds, which informed us there is a rumour afoot that we may be getting yet another bill to look at.

Mr. Mackenzie: It is a very simple list. I will just put it on the record. It seems to tie in with what you have on your agenda, in order anyhow, so it may not be that far off base.

First, Jim's preference--and he will be our senior member in this committee--is that we continue to hear scheduled witnesses on corporate concentration; that is on the assumption that we have some lined up.

Second, he suggests we schedule hearings for Bill 26, the Retail Sales Tax Amendment Act, and Bill 131, the Assessment Amendment Act, as soon as possible. His suggestion is that no more than two days be spent on each bill and that they must be done before the third week of November, so we can proceed with clause-by-clause in the House and complete before Christmas. On the assumption that he knows something we do not, we may be getting Bill 131 as well.

Third is the Treasurer's fall economic outlook, which I think is going to be one of our priorities from now on. It probably has to be. It was the other reason for this committee.

Fourth is estimates. If he had his way, it would be limited to one hour for each ministry.

Mr. Chairman: That last suggestion is delightful.

Miss Stephenson: I am not sure we have that authority within committee.

Clerk of the Committee: The committee may take as much time as it can, up to 10 hours.

Mr. Chairman: Are those merely maximum time periods?

Clerk of the Committee: Maximum times. This committee is not the first one.

Miss Stephenson: On estimates?

Clerk of the Committee: That is correct.

Miss Stephenson: Holy jumping Jehoshaphat. After 10 years of suffering through 37 hours of estimates a year because they were set by agreement and there was not to be any diminution of the hours, you are telling me we could have cut them back any old time?

Clerk of the Committee: No. What I am saying is that--

Mr. Mackenzie: If the committee members agreed.

Clerk of the Committee: If the committee agrees to take an hour, it can do so, but it cannot take more than the 10 hours.

Mr. Chairman: That makes eminent sense. What Mr. Carrozza was saying was that if members of committee exhaust their questioning in less time, surely we should not just sit here and mumble words.

Miss Stephenson: Okay. That I understand. But it is not a precondition of the estimates hearing that the committee can decide to take only one hour?

Clerk of the Committee: If there is unanimous agreement, you can do so.

Miss Stephenson: It would have to be unanimous.

Clerk of the Committee: By the committee.

Mr. Mackenzie: I think the maximum hours are set.

Miss Stephenson: Yes.

Mr. Mackenzie: I agree with that, and in most cases, Miss Stephenson is right, they were used to the full. But there have been a few cases in the past two or three years in various committees, where they have not used the full amount; so I think the option was always there. It was a question of whether you were using it as an avenue to air some of the grievances or complaints.

Clerk of the Committee: If I may give you an example, the estimates of the Provincial Auditor were three hours, and one year the standing committee on public accounts took 50 minutes.

Mr. Haggerty: I might add, though, that although the committee will be hearing the estimates of the Ministry of Treasury and Economics, other members of the Legislature may be in here questioning on certain items. Although we are here, all members of the Legislature have the right to come in.

Mr. Chairman: We have the Ministry of Revenue and Management Board of Cabinet.

Mr. Mackenzie: What has been referred to us is probably within the critics' range of members who are on this committee.

Interjections.

Mr. Chairman: Let us try to speak one at a time.

Miss Stephenson: The Treasury estimates will be in the Legislature on Mondays; traditionally, the Treasurer's estimates have been in the House.

Mr. Chairman: I see.

Miss Stephenson: However, these have been in committee.

Mr. Chairman: It sounds as though there is a consensus that this is a low priority.

Mr. Mackenzie: It was fourth on Mr. Foulds's list, and it certainly would be on mine.

Mr. Chairman: To try to focus this, let us deal with the question of where we stand in the corporate concentration matter. We have suggested we are going to try to have a report done by the spring. We have witnesses again next week. We have some suggestion of a joint committee meeting in January. Do we wish to have the other witnesses in the near future, or would it be preferable to leave them until a later time and resurrect the issue then for purposes of focusing our attention on our report?

Mr. Haggerty: I would prefer a later time. You do not have to say some are coming in next week or two weeks from now and then we are going to continue it into January or February and March. I think we should have it there so we have a complete dialogue as we continue in this process on financial institutions.

Mr. Chairman: With the exception of witnesses who are already scheduled and possibly a joint meeting on which we would have to accommodate the federal committee.

Mr. Mackenzie: I did not have a chance to talk to him, so I am not sure whether that was Mr. Foulds's intention, but I take it he was dealing with witnesses we have scheduled. Because we are asking for time to sit right after Christmas, if that is a possibility, it probably makes more sense that we not try to schedule additional witnesses now, other than those on the list.

Miss Stephenson: Unless there are some who make a specific request to appear.

Mr. Mackenzie: I do not think we have to let it go entirely if there are specific requests, but probably we should go ahead with those scheduled and then take a look at our next order of business here.

Mr. Chairman: According to Mr. Foulds, the next order of business is Bill 26. I think that makes sense to the government.

Mr. Mackenzie: I think his argument is that they have to go back into the House if they are going to be done before Christmas. That means we have to have any hearings on them, by his schedule, by the third week of November. I presume he had some definite reasons for this.

Miss Stephenson: Is he suggesting we are going to recess before Christmas, on about December 10? That never happens.

Mr. Mackenzie: No.

Mr. Chairman: Bill 26, do not forget, is a Treasury budget bill that was first presented in May.

Mr. Haggerty: They take effect in January 1987, so I think they should be dealt with immediately.

Mr. Chairman: The sooner the better, as far as the government is concerned.

Mr. Mackenzie: I think that is the case.

Miss Stephenson: Yes. There is no doubt they have to be finished before Christmas.

Mr. Chairman: Is there a consensus that should be our first order of business?

Mr. Haggerty: It should be the first one.

Mr. Ferraro: Have we substantiated factually which bills are going to be passed before the recess, and have we had some direction from the House leaders in that regard, or are we basing it on some factual information--and I say this respectfully--Mr. Foulds has that the rest of us do not?

10:00

Miss Stephenson: We know Bill 26 has been referred.

Mr. Ferraro: Should we get a little more definitive information from the House leaders as to what is going to be on the agenda and subsequently set our agenda?

Mr. Chairman: I expect the House leaders are quite aware that we are not overly excited about receiving these bills and estimates--I know ours is--but we are getting them. That is a decision the Legislature has made, and we have to live with it.

Miss Stephenson: It could happen to any standing committee.

Mr. Ferraro: I was under the impression that we did not know exactly and definitively what we are dealing with.

Mr. Chairman: We do not. We heard a rumour this morning we are going to get Bill 26.

Mr. Mackenzie: We know we will get Bill 26.

Mr. Ferraro: I wonder whether there is any way we can get that information before we start the full agenda.

Mr. Mackenzie: That is a small point. I think we can verify it one way or the other. I am presuming that, as the critic, Jim Foulds had some reason to believe both of these were coming to us. We know Bill 26 already is. We could find that out very quickly.

Mr. Ferraro: I am not disputing that entirely, Bob, but we do not know what the hell else is coming or what else is on our plate. Is there any way we can ascertain that?

Miss Stephenson: No, we cannot. That is not going to happen at any time. If a bill is referred to a standing committee, it will come to us. That is a decision of the House leaders and there is no way we can predict that.

Mr. Haggerty: Bill 26 is a tax bill and it has to be approved by this committee's hearings on it and then referred back to the House. There is a time element on this bill, and I suggest that we get this before the committee soon and refer it back to the House. That is the way it should go.

Mr. Ferraro: When is the Treasurer's report due?

Mr. Chairman: It is imminent. It could come today. The last time I talked to him about it, which I think was last Thursday, he said it was being typed. It is due very soon. I certainly expect within two weeks we could be prepared to deal with it, next week being consumed with other things.

Mr. Haggerty: Do you want a motion on that? I think we should have a motion.

Clerk of the Committee: For what?

Mr. Haggerty: To hear Bill 26. Apparently, you are going to have--

Clerk of the Committee: If I may, Mr. Haggerty, you have to decide whether you are going to have public hearings or go directly into the clause-by-clause. Whichever you decide upon, then you can set a date and make arrangements according to that date. Your decision should be whatever you wish to do. Either you advertise, if you wish to advertise, or you go directly into clause-by-clause. If that is what you wish, we can set a date two weeks from today.

Mr. Chairman: We could do clause-by-clause this morning, could we not?

Clerk of the Committee: If you so wish.

Mr. Haggerty: Clause-by-clause would be done in third reading in the House, too, but we have to do it in the committee.

Miss Stephenson: It is not necessarily done in the House. Jim Foulds has suggested that clause-by-clause be done in the House because the rationale for referral to the committee was to accommodate public hearings of those groups that had evinced a strong interest in making presentations.

Mr. Mackenzie: He suggested hearings that would be limited to two days.

Miss Stephenson: The committee does not have to do clause-by-clause. It can complete the hearings and refer the bill back for clause-by-clause in the House or it can do clause-by-clause in committee and refer the amended bill back to the House.

Mr. Chairman: I take it we could do neither then. We could just vote right now to refer the thing back to the house for clause-by-clause.

Mr. Haggerty: I am not quite sure about that. I think it has been referred to this committee for the purpose of having public input into the tax bill. I do not know what the Treasurer (Mr. Nixon) said in referring it to the committee. He probably said, "Okay, let the public have some input into it."

Mr. Chairman: I do not think the Treasurer even wanted it to come here. It was decided by the Legislature that it come here, but I take it we have to decide what we want to do with it.

Mr. Haggerty: I do not know about that.

Miss Stephenson: It was referred for the purpose of hearings. That was the rationale behind the decision to ask for it. It was agreed to by the House leaders that it would come to committee for hearings.

Mr. Chairman: Let us have a motion of some sort as to what we want to do with it and just proceed from there. Do you have one there, Mr. Haggerty?

Mr. Haggerty moves that Bill 26 be debated in committee at the earliest possible time.

Mr. Haggerty: I know you have other persons scheduled to come before the committee next week and maybe the following week, so we should set a deadline.

Mr. Chairman: We could debate it right now for two hours.

Mr. Mackenzie: I would have some difficulty with that because I know the arguments that have been made in our caucus are Mr. Foulds's, and I think he should be--

Miss Stephenson: I do not think we should make an attempt to defy the agreement of the House leaders, which was the purpose of referring the bill for hearings.

If we have Mr. Blenkarn coming next Thursday, is it not possible that the advertisement which we should do to alert those who are interested--

Interjection.

Miss Stephenson: You are telling me we do not have to advertise. It is up to the committee to advertise. It always seems fairer to me if the advertisement is carried out because then no possible suggestion can be made by people who are interested that they did not know there had been public hearings. I think that obviates that type of criticism, which is sometimes difficult to face.

If we proceeded today to authorize advertisement, that advertisement could be next week, and we could set the deadline for response for the week after, which would permit the first of the hearings for three weeks from today.

Mr. Chairman: All right. Mr. Haggerty's motion is that we debate Bill 26 at the earliest possible time, and Miss Stephenson is indicating that we have an obligation to have public hearings. Do you want to incorporate that into your motion, Mr. Haggerty?

Mr. Haggerty: I do not want to incorporate it into my motion, because I do not know what the directions were from the assembly. Normally, when they refer a bill to a committee, they give some directions that we invite the public in.

Mr. Ferraro: That is the point I was trying to make earlier. I hear Mr. Foulds via Mr. Mackenzie and I respect Dr. Stephenson, but I would feel much more comfortable having something much more definitive from the House leaders.

Mr. Mackenzie: I am sure Miss Stephenson is correct that it was referred to this committee for hearings, and there is no other reason that Jim Foulds made the recommendation that we schedule hearings on the bill. Is it possible for the clerk to do a very fast check to see just what the motion was in the House?

Clerk of the Committee: No problem.

Mr. Mitchell: As an interloper for a short period today, I think you can accomplish everything that everyone is suggesting here. I accept Mr. Ferraro's concerns about different things, but the motion could be clearly passed that pending any contradiction, which you as chairman will clarify, this committee will follow the process suggested by Miss Stephenson and Mr. Haggerty. Then you have it. It is in your court to make sure and confirm what is going on, and you do not even have to have another meeting to approve the advertising. The clerk can go ahead and do the advertising and everything.

Mr. Chairman: I am not sure I am getting the same message from Miss Stephenson and Mr. Haggerty, am I?

Mr. Haggerty: No, I am afraid not. I left it at a suitable time to have the hearings, if we are going to have them. I do not know, because I do not have the background information of what directions the Treasurer indicated to the committee to review in a tax bill.

If 10 of us here are going to review the clause-by-clause and refer it back to the Legislature, there is no problem, but if he said it should have

public hearings, I am sure that he would have to give you that direction, or somebody else in the chamber debating the bill would have said: "I agree with that. It should go public."

Miss Stephenson: But that is exactly what happened. In the debate of Bill 26, several participants requested that the bill be referred for hearings, and the Treasurer agreed to refer the bill for those hearings.

Mr. Chairman: That is correct. I was probably intemperate in my comments about his desires, because that is a little different from his agreement.

Ms. Hart: Why do we not find out?

Mr. Chairman: That is right. Do you want a short adjournment to do that? Five minutes?

Mr. Mackenzie: If we can clarify that, then the motion is fairly simple. We can try to schedule the hearings and decide whether they will be one or two days.

Mr. Chairman: I think that is pertinent to what we are doing right now, so the committee will adjourn for exactly five minutes, and no longer.

The committee recessed at 10:10 a.m.

10:37

Mr. Chairman: I understand that the resolution simply states that Bill 26 has been referred to this committee for hearings. There has been some understanding and some debate on Bill 26 prior to that. That can result in a certain understanding in the sense of why it has been referred to us for hearings.

I guess we are back to Mr. Haggerty's motion. Do you have any further comment on that, Mr. Haggerty?

Mr. Haggerty: No. If we go public--and that is the direction that has been given to us--then we have a certain time to advertise. I do not know what the normal course is. How long does it take us? Should we wait to advertise for two weeks? In what papers? If we have to go to every newspaper in Ontario, it is going to be costly. I would rather that we go to the major papers: one in northern Ontario, the Globe and Mail, the Toronto Star, the Hamilton Spectator, the London Free Press and the Kingston Whig-Standard or something such as that.

Clerk of the Committee: It was left to the House to decide and now it is left to the committee to decide.

Miss Stephenson: All I know is that there was an agreement among the House leaders and the Treasurer did refer it. The agreement was based upon the request made for hearings on the bill. It was not requested that the committee do clause-by-clause but that the committee hold the hearings related to the bill. Then the committee can decide about whether it is going to do clause-by-clause or refer it back to the House for clause-by-clause.

Mr. Mackenzie: The argument that Jim Foulds put to me was simply that he expected it to go back to the House for clause-by-clause. The only purpose of it coming to the committee was for hearings.

Mr. Chairman: Hansard simply has a voice vote on the bill passing second reading. It states, "Motion agreed to" and "Bill ordered for the standing committee on finance and economic affairs." It is up to us to interpret what that means. I think I am hearing that we want to have public hearings at this point. The issue is the extent to which we want to advertise that fact.

10:40

Miss Stephenson: I do not think we would need to advertise in every local newspaper. I suppose the areas of primary concern would be the larger metropolitan areas of Ontario.

Mr. Chairman: Would it be appropriate to have a subcommittee draft an advertisement?

Clerk of the Committee: We have a standard one the committee can use.

Miss Stephenson: I do not think we need to do that.

Mr. Chairman: All right. We would have a standard advertisement that would simply say we are having hearings to deal with an act to amend the Retail Sales Tax Act. Is that sufficient to inform the public?

Mr. Haggerty: Are written submissions accepted or do people have to appear?

Miss Stephenson: Yes, they are always acceptable.

Clerk of the Committee: Written submissions are always acceptable. You must set a date by which the written submissions are to be received.

Mr. Mackenzie: Mr. Chairman, you should discuss briefly whether you want to limit it. I am not sure how Mr. Foulds came up with the time frame. The note here says it has to be by the third week in November so that we can proceed with clause-by-clause debate in the House. My guess is that you want to put a very limited time on the hearings. Otherwise, you are never going to get through them.

Mr. Ferraro: Would you ask for specific input from various organizations as well? Is the advertisement the panacea with this?

Clerk of the Committee: The advertisement would bring the people who are interested in it from all over the province. You can do that or you can request specific people to come in.

Mr. Ferraro: Or you can do both.

Clerk of the Committee: Yes.

Mr. Mackenzie: I do not think there are any restrictions once it has gone for hearings, but the thing is to decide one or two, or whatever days you are going to allow, or how long you are going to allow.

Clerk of the Committee: You also have to realize that you are able to meet only every week and you have a maximum of three hours per week.

Mr. Chairman: Can we be prepared to have the hearings start November 13, two weeks from today?

Mr. Haggerty: Do you want two sittings?

Mr. Chairman: I do not know whether we will need two sittings. It depends on the response we get, does it not?

Miss Stephenson: In response to the statement just made by the clerk of the committee, it is my understanding that if the committee determines that it requires additional time, it may make that request of the House. If there is an excessive demand for hearings or if you need an additional half day, you can request that of the House. You could do it in the evenings or whenever. That request can be made, and the House may agree with it.

Mr. Ferraro: Carrying on with what Dr. Stephenson has said and bearing in mind that the suggestion was made that we limit the hearings to two days, I have some difficulty with subsequently making a province-wide advertisement and inviting people to make representations if we are limited. Obviously, there is a limit to the time we can allow for representations.

It makes a hell of a lot more sense to me to have, for example, various representative bodies invited to make presentations, bearing in mind the time constraints. I am thinking of consumers' associations, the unions, the manufacturers' association, retail councils and so forth. If there is that time constraint, that is the more viable and practical approach to take.

If we had more time, then I would fully support the advertising. I am not saying it will not happen, but I cannot envisage a presentation being made to a degree that would not be covered by one of the major lobby groups and/or interest groups. If we have two or three weeks for hearings, then I fully support the advertising, but if we are limited, and I suggest we are, it makes more sense to have selected presentations.

Mr. Chairman: Your suggestion is that we not advertise and simply inform specific interest groups.

Mr. Ferraro: Yes, if we are limited in time. To the best of our ability, we should make it as broad as possible so that we get a variety of views.

Miss Stephenson: That is a rational point of view with which I cannot disagree, except that there will be those who will charge the committee with negligence in informing the public that hearings are being held on this bill. They do that with valid intent, because the position of the committee should be that those who wish to make presentations should have an opportunity to do so. You can do it any way you want. I do not care how you do it.

I suspect that while you are soliciting the types of presentations or appearances which would represent a whole lot of people, it might be smart to have an advertisement as well so that nobody could accuse you of not having covered all the bases.

Mr. Chairman: You are suggesting it is smart to have that as evidence somewhere down the line, whether or not anyone reads it.

Miss Stephenson: That is right--or uses it.

Mr. Ferraro: Let me ask the question as well. I suppose it depends on the subject, but in the experience of those who are much more mature in these matters--

Miss Stephenson: No; those that have just been around longer. Maturity has nothing to do with it.

Mr. Ferraro: --what kind of response do you get from these advertisements, or is it purely covering all the bases?

Miss Stephenson: In some instances, it is covering all the bases and--

Mr. Ferraro: So the response is limited?

Miss Stephenson: --the response is sparse. If you put a narrow time frame on the response, then you can control it pretty well. We do not have too much difficulty. There are some people who will always say they were away at the time the advertisement appeared.

Mr. Ferraro: I understand what Dr. Stephenson is saying and her logic makes sense from a political and, to some degree, a logical standpoint. I still have difficulty in justifying it in my own mind if we do not have the time.

Mr. Chairman: It is also the question of costs.

Mr. Ferraro: We are wasting taxpayers' money, quite frankly.

Mr. Chairman: Perhaps Dr. Stephenson is saying we should target the Globe and Mail or one or two other publications that have fairly universal--

Mr. Haggerty: A farm magazine.

Mr. Chairman: Farm?

Mr. Haggerty: Yes.

Miss Stephenson: There is a change regarding farm grain.

Mr. Chairman: Perhaps some house publication dealing with--

Miss Stephenson: I am not sure you really have to go that far. The farm magazine may be--

Mr. Chairman: The theatre.

Mr. Haggerty: You will cover the rural people more so than you would in the papers.

Mr. Mackenzie: You would want as few advertisements as possible, but it probably makes sense that you do have a couple of ads out there. Just set a very narrow time frame--one day or two days, whichever you want.

Miss Stephenson: If you use the major newspapers in the various large centres, there is wide distribution of those. There is, for example, the London Free Press and the Spectator. I am not sure about the Guelph Mercury, but--

Mr. Ferraro: Absolutely a must.

Miss Stephenson: --the Kingston Whig-Standard. I do not think we are going to get a heck of a lot of response, but we will at least have--

Mr. Chairman: Sudbury.

Miss Stephenson: The northern papers, too--but we will at least have provided the opportunity. If you provide a telephone number, including a wide area telephone service line, then there really is not an excuse for people missing if they have any concern about the bill. At the same time, you get in touch with the people who have expressed some concern and simply tell them. We do not leave that up to the clerk to do. That is really up to the members.

Mr. Chairman: There seems to be a consensus right now.

Mr. Ferraro: I still have some difficulty.

Miss Stephenson: I do not think we should give them longer than one week in which to respond, or to indicate they want to respond.

Mr. Chairman: How quickly can we get these ads in? Are we realistic in saying we want them to be ready to go on November 13, two weeks from today?

Clerk of the Committee: I think it is realistic. I think we can get advertisements in the major papers within three to four days.

Mr. Chairman: You have a list of major papers?

Clerk of the Committee: Yes. There is a complete list.

Mr. Chairman: The Kitchener-Waterloo Record.

Clerk of the Committee: The agency of record has a list of all the major cities and papers, so if you were to say province-wide, it would go province-wide.

Mr. Chairman: We are not saying that.

Miss Stephenson: Major urban areas.

Clerk of the Committee: Major urban areas, yes, the ones that have a paper.

Miss Stephenson: That is all you need to do.

Clerk of the Committee: It could be done in three to four days.

Miss Stephenson: That ensures that almost everyone is going to have a chance to see there has been an opportunity to respond. That is the important thing.

Mr. Chairman: You are still not that happy with that Mr. Ferraro?

Mr. Ferraro: No, I am not, but Dr. Stephenson and Mr. Mackenzie have many more years of experience than I do in this regard. I will succumb to their judgement.

10:50

Mr. Chairman: Mr. Haggerty has mentioned a farm paper that should be included specifically because of one of the amendments in here.

Mr. Haggerty: That is right. Many people in the country do not pick up the Globe and Mail, the Toronto Star or the Spectator, but the farm magazine goes out once a week and covers the whole rural area.

Miss Stephenson: Yes, but that is the difficulty, Mr. Haggerty. You cannot get as quick service from the placing of advertisements in a weekly paper of any type as you can from a daily.

Clerk of the Committee: You have to wait at least a week to get it in.

Miss Stephenson: Yes. That is right.

Clerk of the Committee: It will be much more difficult.

Mr. Haggerty: I would put it in one of the farm papers.

Mr. Chairman: What paper would you suggest?

Mr. Haggerty: The one that is printed in London, The Farm Advocate, is it?

Clerk of the Committee: Could we not circumvent that by advertising in the farmers' association--

Miss Stephenson: The Ontario Federation of Agriculture.

Mr. Chairman: Can you include The Farm Advocate?

Clerk of the Committee: We shall certainly try, but we are not promising anything.

Mr. Chairman: Try your best.

Miss Stephenson: I think it is going to take you two weeks to get it in.

Mr. Chairman: To get an ad.

Miss Stephenson: If not, it will take you 10 days to get it in and then it will another week after that.

Mr. Chairman: We will choose The Farm Advocate if it is conceivable to get it in in time for circulation before November 13.

Mr. Haggerty: It is a farming newspaper. I will get the name.

Clerk of the Committee: Can I ask that we funnel everything for a nice motion?

Mr. Chairman: A nice motion, that is right. Is there any other interest group that should be specifically targeted? Then I will get back to the theatres.

Mr. Haggerty: I think it is The Country Journal.

Mr. Chairman: The Country Journal as opposed to The Farm Advocate?

Mr. Haggerty: I will check it out anyway.

Interjections.

Mr. Chairman: We can contact them directly. We will get to that in a minute.

With regard to section 6 of the act, the issue of the exemption of performances on charities and so on has been the subject of some debate.

Miss Stephenson: As I said, there are arts councils.

Mr. Chairman: So there is no need to put a public ad in to inform them.

Miss Stephenson: In their publications, no. They will see those.

Mr. Chairman: Okay.

Mr. Cordiano: Excuse me, Mr. Chairman. Could I get a copy of the bill? I do not have one.

Mr. Chairman: You could borrow this one.

Mr. Cordiano: Do you have any extra there?

Mr. Chairman: No.

Mr. Cordiano: Let me take just a quick look at it.

Miss Stephenson: The small business associations have had certain responses from members regarding propane, the switch from exemption to rebate. I think they want to make a presentation, but they will see this, so it is not necessary to contact them.

Mr. Chairman: All right. Are there any specific organizations we should ferret out?

Clerk of the Committee: I received a letter from the transportation people.

Miss Stephenson: The Ontario Trucking Association.

Mr. Chairman: Dr. Stephenson is suggesting they will come anyway.

Miss Stephenson: OTA will be here. It will have read everything anyway, so it will know that it is going to committee and you will not escape having it here. That is all there is to it. I was not thinking about OTA. I was thinking about the smaller groups. The universities will not object. I do not think the farmers will object to what is being done unless they are affected by the energy conversion program. If they had a (inaudible) it would be really affected by that. That is where the small business group comes in.

Mr. Chairman: Do you feel the small business people should be asked specifically, Mr. Ferraro?

Mr. Ferraro: Yes, I do. If the committee does not want to do it, that is okay.

Clerk of the Committee: We will ask the small business associations.

Miss Stephenson: Yes, both of them.

Interjections.

Miss Stephenson: It was Geoff Hale and the other one.

Mr. Chairman: Judith Andrew and John Bulloch.

Miss Stephenson: Right.

Mr. Chairman: Is there any other group that we should specifically ask?

Mr. Ferraro: Consumers associations, manufacturers associations and restaurant associations.

Mr. Chairman: Of Ontario.

Mr. Mitchell: Most of these usually watch the papers pretty carefully. I am not suggesting you should not, but--

Mr. Chairman: Do you withdraw that then, Mr. Ferraro?

Mr. Ferraro: Not really. I think the argument should be made--and I do not want to prolong this--that if we are going to have the expenditure of advertising in newspapers to notify the average citizen and/or association, it certainly makes a hell of a lot of sense to spend 37 cents to send the specific organizations a letter.

Mr. Chairman: All right. No one has any serious objections to the four groups Mr. Ferraro has suggested?

Mr. Ferraro: Any groups you can think of. I leave it in the hands of the clerk here.

Mr. Chairman: All right.

Mr. Cordiano: I do not know whether this is a point of order, but I will say it any way.

Mr. Ferraro: A point of view.

Mr. Cordiano: A point of view. What time frame are we talking about with regard to this bill?

Mr. Chairman: That is a political question. I do not think the Legislature--

Mr. Cordiano: I am asking the politicians.

Mr. Chairman: The Legislature has not--

Mr. Cordiano: It has not given us a set time frame.

Mr. Chairman: They have asked us to deal with it and report back.

Mr. Mackenzie: I think Jim's observation is a legitimate one, though. It must be done before the third week of November, so that we can proceed with clause-by-clause in the House and complete before Christmas if the bill is to go through.

Mr. Chairman: I do not think my party will be upset with that. The sooner the better.

Mr. Cordiano: I am looking at what we as a committee know to be more or less the conditions placed in terms of time restraints, given the fact that we already have a very busy schedule and an agenda we outlined very carefully not too long ago. I hope we will make every effort to stick to that agenda, if at all possible.

Mr. Ferraro: We do not have any choice. That is the argument we have made before.

Mr. Chairman: Are you suggesting, though, that we should put this bill aside?

Mr. Cordiano: No. I am not suggesting that. I am just saying we should do it as expeditiously as possible.

Mr. Mackenzie: That has been half our argument all morning.

Mr. Chairman: It was part of the budget of course, back in May.

Mr. Cordiano: I am in full agreement.

Mr. Chairman: It will be helpful to budgetary considerations if it is dealt with, one way or another, as quickly as possible. I think I understand what we want with regard to information being given out on hearings. We need a motion to the effect that we advertise in basic city newspapers plus Farm and Country and to the effect that we inform the four specific groups Mr. Ferraro has suggested, with a view to starting our hearings here on November 13, 1986.

Mr. Ferraro: Which four groups were those again?

Clerk of the Committee: The Consumers' Association of Canada, the small business federation--

Miss Stephenson: There are two of them.

Clerk of the Committee: The two small business federations, the Canadian Manufacturers' Association and the Ontario Restaurant and Foodservices Association.

Mr. Chairman: And any other groups that, in the discretion of the clerk or chairman, should be informed.

Mr. Ferraro: Or the committee.

Mr. Chairman: Miss Stephenson moves that we advertise in basic city newspapers, plus Farm and Country, and inform the four specific groups Mr. Ferraro has suggested, with a view to starting our hearings here on November 13, 1986.

Is there any discussion?

Clerk of the Committee: Can I have some direction? When do you wish the advertising to go in and for how long a time? Do you wish them to give us an answer? What is the due date?

Miss Stephenson: Immediately.

Mr. Chairman: Put the advertisement in as quickly as conceivably possible.

Clerk of the Committee: Okay. Is it to run for one week? I mean for them to contact us in the time of one week?

Miss Stephenson: You cannot put just one notice in a newspaper, can you?

Clerk of the Committee: Yes.

Miss Stephenson: It has to be for a couple of days, does it not?

Clerk of the Committee: That is going to cost you a lot of money.

Miss Stephenson: I see. I just wondered.

Clerk of the Committee: You wish to begin your hearings on November 13, 1986?

Mr. Haggerty: If that is suitable. I do not know.

Clerk of the Committee: If we can contact the four organizations and schedule them for that date, then you can put on line for the second day all the other people who call.

Mr. Chairman: What dates do you need? Can we not just say in the advertisement to contact you and that we are going to have full hearings starting November 13, 1986?

Clerk of the Committee: I can put the time, the place, the telephone number where they can call and how many meetings you are going to be holding during these hearings.

Mr. Chairman: We do not need to have any deadline of when they would get their inquiry--

Miss Stephenson: If they are going to provide written submissions, we need to have a deadline date for that. Why not say November 13 is the deadline date for written submissions? That is going to be the first day of the hearings. If you get them by then, at least everybody will have them by the following week, although they may not have them by November 13.

11:00

Mr. Mackenzie: I suggest also that if you get a run on it, you are going to have to limit it and ask for written submissions for most of them. If you are going to do it in a day or two, and I think that is really what you are going to have to do--

Clerk of the Committee: I will prepare the advertising. You will be in the Legislature today. Can I come and show you the outline of it?

Miss Stephenson: Are you going to make any dramatic changes to the usual?

Clerk of the Committee: No.

Ms. Stephenson: Then why do we need it? Go ahead and do it.

Clerk of the Committee: I could show it to the chairman.

Miss Stephenson: Yes, show the chairman. If he approves, that is fine.

Clerk of the Committee: Okay.

Mr. Chairman: Do you feel you have enough direction there?

Clerk of the Committee: Yes.

Motion agreed to.

Mr. Chairman: What else can we do with Bill 26 today?

Miss Stephenson: When will you find out when the economic statement is going to be produced?

Mr. Chairman: I can find that out this afternoon.

Miss Stephenson: It is not going to help us right now in trying to deal with this.

Mr. Chairman: I can assure the committee that we can deal with this before two weeks from now. If for some reason we are not prepared to go with something on Bill 26, we will have it to deal with then. I can almost assure the committee we can go with it next week if somehow or other Mr. Blenkarn does not come.

Miss Stephenson: This committee is in enough difficulty.

Mr. Chairman: I assume that in discussing that we can schedule it for the very near future.

Mr. Mackenzie: We can discuss it at the beginning of the next meeting even if we have Mr. Blenkarn here.

Mr. Chairman: Do we have anything else we can do with Bill 26 today?

Mr. Mackenzie: I do not think we can.

Mr. Chairman: The problem then becomes the rest of the schedule. Your suggestion, Mr. Mackenzie, was that--

Mr. Mackenzie: The next order of business would be the Treasurer's paper.

Mr. Chairman: It would be the paper. Is there any comment on that?

Mr. Ferraro: I have a comment you might want to rule out of order. Why are we dealing with this in the committee as a whole? Why is the subcommittee not dealing with this whole matter we have discussed for the last two hours?

Mr. Chairman: I am quite prepared to answer that. First, we had witnesses scheduled for today who cancelled. We also had to do our report today, as a result of our discussion last week.

Mr. Ferraro: Yes, I do not have any problem with that.

Mr. Chairman: So we did that. Then we are finding ourselves inundated with other work from the Legislature. I am simply asking the committee as a whole, because we are here as a whole, to prioritize the rest of our work. I do not expect it to be a lengthy discussion. If you wish, it is quite in order for you to move that be left to a subcommittee to deal with.

Mr. Ferraro: I am sure we all have lots to do. The normal procedure is that a representative from each party subsequently sets the agenda to some degree.

Mr. Chairman: That is quite possible, except that in this circumstance Bill 26, for instance, was given to us subsequent to our last meeting. There was no chance for the committee as a whole to handle that.

Mr. Ferraro: I am just bringing up the point. I do not mean to be disrespectful.

Mr. Chairman: That is quite all right.

Mr. Mackenzie: Unless there are some real arguments with it, it is relatively easy to save the subcommittee meeting by prioritizing the three or four things we know we have before us.

Mr. Chairman: It does not sound as though we have a huge debate on this issue.

Miss Stephenson: No.

Mr. Chairman: I am understanding that we will carry on with the essential things we want to do on corporate concentration which have already been fixed. We will deal with Bill 26 as expeditiously as possible. We have heard some rumours to the effect that we may be given other bills, but we do not have to deal with that yet. You may wish to discuss a policy on that issue right now.

In any event, it sounds to me as though we can get on to the economic paper within a month.

Miss Stephenson: Or if there is time within the committee's time allocation that is not totally occupied with other things.

Mr. Chairman: Yes.

Miss Stephenson: There is no reason you cannot begin that examination.

Mr. Mackenzie: As a protective measure, and I have no idea where Mr. Foulds came up with Bill 131, it might be worth the clerk's checking that out.

Clerk of the Committee: I did hear some rumours that we could be getting Bill 131, but I am not sure.

Miss Stephenson: What we can do is to go back to our House leaders and argue with them the appropriateness of sending Bill 131 to this committee.

Mr. Mackenzie: It is the Assessment Amendment Act.

Mr. Chairman: You could even instruct me to comment on it this afternoon if you want. It is due for second reading this afternoon.

Miss Stephenson: You are going to be making your statement to the board, and that is a little presumptuous. To do it quietly with our own House leaders is probably a reasonable way to go about it. We might invite the damned thing if you bring it up.

Mr. Chairman: Yes, I suppose you are right.

Mr. Mackenzie: I have nothing but Mr. Foulds's notes to go on. Knowing Mr. Foulds, I presume he had some reason to believe we would be asked to hold hearings on these two bills and that is why he looked at them.

Mr. Chairman: Is there any other business? Mr. Bond has drafted that last sentence if you want to take another look at it. We have passed a resolution permitting him to do that, but you can come up and take a look after we adjourn if you wish.

Miss Stephenson: I am sure it is exactly what we wanted.

Mr. Chairman: Thank you. Is it not nice we got started so early this morning? You have a long lunch hour to get all those constituency things done.

The committee adjourned at 11:06 a.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CORPORATE CONCENTRATION
ORGANIZATION

THURSDAY, NOVEMBER 6, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Warner, D. W. (Scarborough-Ellesmere NDP) for Mr. Mackenzie

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

Witness:

From the Standing Committee on Finance and Economic Affairs, House
of Commons:

Blenkarn, D. A., Chairman

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 6, 1986

The committee met at 9:15 a.m. in committee room 1.

CORPORATE CONCENTRATION
(continued)

Mr. Chairman: Let us get started. We have with us this morning the chairman of the federal finance, trade and economic affairs committee, if I have it properly named. Is that right?

Mr. Blenkarn: We dropped "trade." We figured we had enough talk on trade going on without our talking about it.

I am pleased to be able to come to speak to you this morning about financial institutions and the thrust behind our view and the view we believe the government of Canada will take. We may talk about some thrusts that are involved in the proposed draft legislation that, from a federal point of view, we hope to produce for the public before the end of the year. I am particularly pleased because I think it is important in a country such as ours that when federal politicians are involved in issues in which provincial legislators are involved, they all talk together.

In particular, in the field of financial institutions there is a tremendous overlap in jurisdiction. In essence, in my view, the provincial jurisdiction is in the field of property and civil rights, which, of course, involves contracts and how contracts are sold and distributed amongst the public. It is, essentially, a very consumer and corporate affairs point of view, where provincial governments must do the licensing of people allowed in the security business, in the real estate business, in the mortgage brokerage business, in the trust company sales business and so on. People who are selling products such as insurance to the public are licensed, controlled and directed where they might operate and how they might operate by provincial governments. It is important that this continue.

In our view, the federal jurisdiction deals essentially with the financial security of the companies and the people involved, largely because the intermediary business involves leverage, or gearing. All intermediary businesses are the same. It is important that that understanding be there. It does not matter whether you deposit your money in a bank, whether you pay a premium for life insurance or whether you buy an insurance policy on your home; the whole operation is a method of collecting savings from you, and the companies all do exactly the same thing with your money. They take it out and invest it in a home mortgage or in a leasing operation, or they take a debenture or a private security or something of that nature. They take precious little of their own money and a hell of a lot of the public money and they invest it. They work on a gearing basis. They all work the same way and, essentially, they all take the same type of security for the money.

09:20

Obviously, the ratios of security and the kinds of things they invest in depend on the term of the deposit, premium or obligation to repay or the

requirement to pay a person a pension, as in a pension plan. That is a question of inspecting assets and making sure there is matching, but they are all in the same business.

They are in a different business from the boot and shoe business. Boot and shoe businesses rarely operate with any more borrowing than a one-to-one ratio; these companies operate with up to a 25-to-one ratio. For one dollar of theirs, horse and rabbit pie; one horse, one rabbit. That is what they are all about. They are entirely different.

When you are dealing with corporate concentration and issues involving management and security of the investors' money--or the depositors' money, because I do not think you need to worry about the investor; the investor is in there because of the gearing--you have to be exceptionally careful to make sure the investor or the depositor is protected.

There is another thrust in public policy, and that is the issue of making sure there is ample competition. Citizens basically want in the marketplace the right to be able to buy various classes of products for financial security. They want all sorts of opportunity to buy, invest and deposit their savings in different ways. We can offer depositors the finest form of security if we let Big Brother do the whole thing, but we would be assured that if you went to get a loan from somebody and Big Brother turned you down, you would never get it.

It is important in a capitalist society that there be as many opportunities as possible for people to be able to deposit or save their money or to be able to borrow their neighbours' money or the accumulations of money that are picked up. That is the other reason for making sure there is not an overconcentration or an improper concentration of ownership. It is important that there be ample sources for borrowing money.

The problem is that these objectives are essentially in conflict. If you wanted to be tough, you would restrict the market to a very few well-managed, highly specialized organizations and let no new players and no new product into the game. On the other hand, that is not an acceptable answer. We have to come up with a form of supervision that handles that problem.

Our feeling was that we would suggest that since, from an investment point of view, all these institutions were doing the same thing, they ought to be managed or supervised by the same supervisor. We suggested a national financial administration agency, but whether you did that or whether provincial agencies or other agencies had exactly the same terms of reference and control system does not really matter. However, the reason you need the same mechanisms, the same rules of the game and the same type of enforcement is that if you do not, you wind up with what is called regulatory competition. That, in itself, is the worst possible result.

The prime case of regulatory competition is in the Greymac-Seaway-Crown Trust affair. You will remember that Rosenberg and company were in trouble with Bob Hammond, the federal regulator. They were on a one-month lease. It was likely that their licences were to be cancelled. To protect themselves, they dipped and dived into the provincial registered trust companies and kept their licences for their mortgage operation flowing. Actually, when one inspector came in, they made sure the assets were in one place, and when another inspector came in, they made sure the assets were in another place.

Unfortunately, there was not enough communication. During the whole course of this business of being on a one-month lease, we allowed Rosenberg to go out and buy the Crown Trust Co., and the Canada Deposit Insurance Corp. suffered at least \$1 billion in losses resulting from that. The whole economy and the deposit business in the country has suffered since. That is a prime example of regulatory competition.

The second thing we have to do is to make sure that the kind of people who are agents, directors or officers of these companies are all coming from the same pot and with the same understanding. For example, as you have noted in the Estey report, and certainly in our own report, we are concerned about the quality of accounting or auditing service. We have to have the same basic standards and some control of who does the auditing, some control of who does the appraising.

The Crown-Greymac affair is a perfect example of appraisers. The same guys from the same appraisal institute appraised apartment buildings at \$270 million and the same week at \$500 million. Blue glasses, pink glasses or whatever kind of glasses, they be fraudulent glasses. Obviously, the regulatory agency must have a say about who are authorized appraisers and who are not. We cannot necessarily depend on the agencies.

We recommended a fairly highly centralized type of agency, but an agency with provincial input on the board of directors and with industry input, because we believe that unless you make the industry part of the regulatory system and have it represented on the board of regulators, you are going to continue to have the we-they attitude: government policemen, people in the industries trying to avoid the regulations. You have to make the regulators part of the system. That is how we operate with other institutions such as lawyers, accountants and doctors. We try to make sure that these public organizations not only have public input on their boards but are also essentially self-regulating. To a large extent, we have to make sure the financial industries are self-regulating.

I have said a great deal and I would be delighted to answer any questions you have. We have been involved in this for a considerable time. As you know, we are currently winding up our inquiry into the Lloyds Bank-Continental takeover. We started that investigation because we were most concerned about ownership policies and ownership controls. I am sure you may want to talk about that.

You may recall that in the spring, after the Imasco takeover of Canada Trust from the whole Genstar operation, we started public hearings on that issue of nonfinancial control of financial organizations. In sum and substance, we took the position that if we do not want the bank to own the corner grocery store or the corner drug store, we do not want the corner drug store to own the bank. That is exactly what we have in the Imasco case. We have the tobacconist and the drug store owning the bank.

If you are going to do that, then very soon you will have no real reason that the bank cannot own the drug store and the tobacconist. Obviously, you have heard the great story of the level playing field. Everybody wants his own level.

In our view, the fact is that you have to separate financial interests from nonfinancial interests because of the very competitive nature of the system, the fact that you want the system open for people who are in a real world to be able to go to the unreal world of finance to be able to borrow and

obtain the credit and financial support they need for their businesses. If you wind up with the businesses owning the bank, it will not be very long before you will have a blending of that and business will be operated on the kind of leverage that the financial industries operate on. I am going to let it open.

09:30

Mr. Chairman: Thank you very much. You have made a very interesting point in suggesting that, whatever we do, we have to make sure the provincial regulations are carefully dovetailed with the federal ones so that we are not being used and abused.

Members of the committee will be aware that they have been handed a copy of an address that Mr. Blenkarn is going to make next week. He gave us permission to distribute it. Some people have been raising their eyebrows.

Mr. Ashe: Is it all right if we sell advance copies of it to British Columbia? Maybe it will save him a trip.

Ms. Hart: I would like to start off with the point the chairman has just raised. I have been involved before a lot of regulatory tribunals, provincial and federal, and I have yet to see them work together. Do you have any suggestions for that?

Mr. Blenkarn: That is really the reason we suggested the National Financial Administration Agency. We felt it was imperative that the agency be the same agency. On this issue, the federal government is not likely to carry on with the situation where it lets provincial inspectors of provincial regulatory agencies certify the validity of an operation for Canada deposit insurance. If you are going to pick up the chips, you want to make sure that the game is being played the same way everywhere and that you have some control of it.

Mr. Ferraro: Why was it allowed?

Mr. Blenkarn: I do not understand it myself, except that there was a fair amount of close working between them. It is only in this province, and British Columbia, Quebec and Alberta to some extent, that provincial regulators have done the inspecting. The inspecting for provincial trust companies and insurance companies for all the other provinces was delegated to the federal inspector anyway.

Ms. Hart: It is not an unusual thing. In transportation, the federal government gave back all its interprovincial jurisdiction to the provinces. Do you not foresee some difficulty? Ontario is the place where most of these financial institutions have their head offices.

Mr. Blenkarn: They have their head offices here, but they are not necessarily incorporated provincially.

Ms. Hart: I am sure most of them are not.

Mr. Blenkarn: One of the things you have to appreciate is that in this world today, money moves faster than the twinkling of an eye. I can make a security transaction in Toronto and resell the asset in Johannesburg or Hong Kong within seconds. Money does not know any provincial borders; it does not even know national borders. It is exceptionally difficult for a provincial, limited-control mechanism to control international stuff and even

interprovincial problems. That has us concerned, and I suspect it has you concerned.

Ms. Hart: Do you know of any initiatives on the part of the federal government--I will take Ontario as an example--to work together with Ontario? You are talking about a national body.

Mr. Blenkarn: We think we have to work together, but there are two separate regulatory matters. The first regulatory matter that clearly has to be handled provincially is the one concerning what individuals are licensed to sell, how they are licensed to sell the product and the kind of consumer protection you have to have to make sure that insurance salespeople, pension salespeople and so on are presenting the product they are selling honestly and fairly, that the contracts are fair for people to buy and how they are displayed.

For example, suppose we were to say that banks could buy into or have a general insurance subsidiary, a property and casualty company subsidiary. The P and C agents in Ontario and across the country are terrified of the concept of insurance agents operating out of local banks. The control of that is entirely in the province's hands. You can sit back and say, "If you own it, that is fine, but you had better have an office down the street and around the corner because you cannot have it on the same premises."

Why we might do that is that we perceive a tremendous lack of capital in the P and C business. One of the reasons insurance rates are exceptionally high for people in Canada is because most of the companies do not have enough money behind them. They have cut back the number of lines they are selling, so there is very little competition.

For example, if you are buying liability insurance for a manufacturer, or for the YMCA for that matter, very few people will offer the coverage, so the ones who do offer the coverage may want an arm and a leg for what they are offering. I am not saying they are overpriced, but there is sure no competition there because there are only one or two people in the business. The reason there are only one or two people in the business is that, unfortunately, most of the companies in the public liability insurance business in Canada do not have enough capital. Therefore, they can take only so many risks.

Ms. Hart: Do you know of any initiatives on the part of the federal government to come up with some agreement with the provinces?

Mr. Blenkarn: It is my understanding that there has been a fair amount of negotiation between your minister and the federal minister. To what extent they have been able to organize an agreement concerning similar or identical regulatory arrangements, I do not know. I know there have been a number of meetings.

Ms. Hart: The other area I would like to explore with you briefly is the question of safeguards to avoid regulatory competition. Have you given that some thought? Do you have some suggestions for us?

Mr. Blenkarn: I am very afraid of regulatory competition. We have regulatory competition to some extent right now in Ottawa. We have an Inspector General of Banks and a superintendent of insurance. Temporarily, the Inspector General of Banks and the Superintendent of Insurance is the same person. Mr. Hammond has taken over the inspector general's office temporarily.

We have not put the bill out, but I suspect we are likely to amalgamate those two functions because they amount to regulatory competition.

Even if you say, for example, that a company can invest only 75 per cent of the value of a house in a first mortgage, what is the value of the house? Is it the appraised value? Is it its value as a heritage property? Is it the replacement value? Is it the current market value with no down payment and a low-interest mortgage? What is its value?

What you must have is some element of standardization. The kinds of people you send out as appraisers have to be directed from the same type of source, where there is a great deal of co-operation and working together, or the same source. Our suggestion was the National Financial Administration Agency for this purpose, and the province would be part of the agency.

Mr. Ashe: I have a short comment before I get into some of the specifics. I am not trying to put you on the spot. You may have already said so publicly, but I am sure you personally have some concerns about the initiative the Minister of Finance appears to be taking to designate a couple of areas of this country as significant banking centres for foreign banking.

9:40

Mr. Blenkarn: It is off topic, but my committee will be exploring that matter after we finish with credit card interest and take a quick look at the Canada Deposit Insurance Corp. and its financing problems again. Coming from Toronto and having a fair acquaintance with the banking industry, I think the matter needs serious review.

Mr. Ashe: I am glad to hear you say that. I presumed you would.

Mr. Blenkarn: I have said even worse sometimes.

Mr. Ashe: It is fair to say that in the provincial Legislature of Ontario, this issue crosses party lines. It is one of the things we may have unanimity on, a new accord, with all three parties.

Mr. Blenkarn: I believe the only way you could conceivably persuade the banking industry to go to Montreal and Vancouver for their international business would be to offer them huge tax breaks. If you want to reduce taxes on the banks even further, that would be the way to do it. As a matter of fact, maybe we could have a tax credit plan to pay them to do this sort of thing. I am sure it would be difficult to justify it in the public interest, but maybe that is what they have in mind.

Mr. Ashe: There is no doubt that seemed to be the implication as put out by the federal Minister of Finance at the time, but that is not the main thing. That was just a bit of an aside. I wanted to get your thoughts on the record.

Are you familiar with Bill 116, An Act to revise the Loan and Trust Corporation Act?

Mr. Blenkarn: I have looked at your statute.

Mr. Ashe: This is the new one. It is coming up momentarily. Conceivably it is be in Orders and Notices today; I have not yet seen today's order paper. Okay; it is there for second reading debate. Have you or any of

your people had a look at it, not on the basis that the federal government should be approving provincial legislation--I do not subscribe to that at all--but going back to what you were discussing earlier when you said we should be co-ordinating what we are doing in each other's fields, so that the overlap is helpful?

Mr. Blenkarn: The long and the short of it is that the bill gives power to trust companies to become involved in commercial lending that is far greater than I am sure the federal government will accept. If trust companies are allowed those powers to the extent that is there, then the companies in taking those powers up would have difficulty with Canada Deposit Insurance Corp. The province can pass that legislation, but I suspect CDIC will not insure those deposits.

Mr. Ashe: I am glad we have that out front right now.

Mr. Blenkarn: It is because of the different nature of the portfolios. In other words, the essence of the insurance of the deposit is whether you have the matching situation you should have and whether you have the quality and kinds of controls over investment you should have. Essentially, commercial lending, which is really current account lending to businesses, is a rather specialized and relatively risky thing. You are dealing with the banking institutions. They are taking a great number of current account deposits. They are operating right now as the cheque-clearing agency for businesses.

By and large, trust companies are not in that business. To start getting into that business, or being in that business, would mean they would have to have experienced people involved. Then the question becomes: Is it then banking? If it is banking, then the question is whether they are banks. I think there would be some difficulty.

Mr. Ashe: Mr. Blenkarn, I do not know whether your committee has looked at it or whether it has been just the ministry within the federal government. Do you know whether that concern has been discussed and/or communicated to the province?

Mr. Blenkarn: I do not know whether the federal ministers have discussed that issue with the province. I suspect they have. I would be most surprised if officials have not been talking back and forth. I was not there. Like you, I am a member, but not one of the chosen few in the cabinet. I am never quite sure what they do, but I have my suspicions.

Mr. Ashe: Quite a few. Are you aware of any other problems or do you have any further thoughts that would make our Bill 116 better at protecting the depositors and, I suppose to a lesser degree, the investors in those various financial institutions?

Mr. Blenkarn: I hope your bill will follow the federal bill or the federal bill will follow your bill. It is essential that trust company legislation be virtually identical for the same reason pension legislation ought to be virtually identical.

The ordinary person on the street does not know whether a thing is provincially or federally incorporated. Let me tell you of a situation. Out in British Columbia, they had the Teachers' Investment and Housing Co-operative. This housing co-op was just what it says, a housing co-op, and it developed bit by bit into virtually a trust company, taking deposits. It spread its

wings right across into Alberta and Saskatchewan. It got itself into the \$400-million or \$500-million size; it was not small. It even bought a trust company called Discovery Trust.

It got into the business of selling registered retirement savings plans, first with Montreal Trust as a trustee. When it bought its trust company, it transferred these RRSP accounts to the trust company, and of course, the trust company deposits were insured by the Canada Deposit Insurance Corp. The rest of it was little people who were making deposits and thought they were in a savings plan that was insured. Guess what? We are not going to come to the rescue. Perhaps British Columbia should come to the rescue, but we are not coming to the rescue.

They properly say we bailed out the depositors of this bank and that bank and ask why we will not look after them. People do not understand where the limits are between provincial and federal jurisdiction and whether the thing is insured or not. In this province right now, we have securities dealers operating deposit accounts where you can write a cheque and they will cover your Visa. If that is not banking, I do not what is, but those deposits are not secured or insured except by the arrangement through securities dealers to look after each other's accounts.

Let us be clear about it: There are people who believe that somewhere along the line that \$60,000 CDIC limit applies to them; it does not. That is where our problem is and that is why it is absolutely essential that all these things be brought under one cover.

Mr. Ashe: I will allow somebody else a chance.

Mr. Chairman: Do you have enough for a speech on Bill 116?

Mr. Ashe: It sure helped.

Mr. Ferraro: I have a couple of questions. This is out of context as far as I am concerned, but we just dealt with it to some degree, the CDIC insurance. You make a recommendation in the report that the \$60,000 be retained.

Mr. Blenkarn: Yes.

Mr. Ferraro: Why did your committee deem that to be sufficient? Why would it not go higher, even at the cost, for example, of the depositor paying a premium for the insurance and getting higher coverage? Was that even considered?

Mr. Blenkarn: Presumably there is nothing to prevent depositors from insuring their deposits for a higher amount with the ordinary property and casualty industry.

09:50

Mr. Ferraro: Can they get it? I do not know.

Mr. Blenkarn: I do not think anybody has offered that coverage, but if there were a demand, I am sure it would be offered. Conceivably, Trust Companies Association of Canada might organize an insurance subsidiary and work out something. In any event, coverage beyond that could only be obtained privately. We felt we should not go beyond the \$60,000. We looked at this

matter very seriously and the Wyman commission did a pretty fair analysis on the Canada Deposit Insurance Corp.

There have been two or three matters that affect it. You have to go back to the reason for CDIC in the first place. The reason we have CDIC is to make sure that local and regional deposit-taking institutions can raise funds so that we are to have local sources of money in all parts of the country. Small banks, small trust companies and so on could never operate and could never attract a nickel without CDIC. With CDIC, with perhaps a very small shade in interest offered, even the weakest organization in terms of total capitalization can attract reasonably priced deposits, and therefore is able to make reasonably priced loans and offer a service.

If you put in any degree of co-insurance, you immediately destroy the whole concept of having CDIC in the first place because you will have a huge flight to quality. They will all go to the big banks, just like that, and we will be back down to five or six sources of financing in the country. On the other hand, if you increase the coverage, you increase the amount of deposits that go in and you increase your liability. We felt that \$60,000 was more than enough. If you analyse the thing, when the limit was \$20,000, nobody deposited more than \$20,000; when the limit became \$60,000, nobody deposits more than \$60,000. If we made it \$100,000, those would just go up to \$100,000. To keep the liability down, we felt that \$60,000 had to be it, but we were afraid to cut it below \$60,000 because what we would do is again penalize the relatively small institutions.

Mr. Ferraro: Why would you want to keep the liability down if you make the premise that you are going to match your liabilities with asset growth?

Mr. Blenkarn: I mean the liability of the insurer or the liability of the supervisor for a particular corporate defalcation.

Mr. Ferraro: I do not wake up before 11 o'clock, but I am not following you entirely. If the purpose of CDIC is to protect the depositor and if CDIC is banking on the assets of that financial institution to some degree, and indeed of all financial institutions, if you increase the amount of deposit insurance, that would have to have a bearing on the growth in asset size of the financial institutions.

Mr. Blenkarn: Sure.

Mr. Ferraro: Therefore, what we are talking about is bigger numbers. Why is that a problem?

Mr. Blenkarn: You are talking about bigger numbers and bigger risks. If you are going to insure deposits 100 per cent to \$60,000, your risk is \$60,000 deposits; if you insure them to \$100,000, your risk is \$100,000 deposits.

Mr. Ferraro: If I have \$100,000 to pay \$60,000, I obviously have to get \$120,000 to pay \$80,000, in assets to liabilities.

Mr. Blenkarn: The fact is that when you have to seize or liquidate a deposit-taking institution--

Mr. Ferraro: The assets are not always there.

Mr. Blenkarn: --you undoubtedly do not have enough assets to cover the liabilities, so CDIC gets paid only its liquidation proportion. The average liquidation has been able to cover its debts to somewhere between 60 per cent and 80 per cent. The banks out west will cover their debts, right across the board, to about 60 per cent.

In other words, we hope that when we finally liquidate, we will get 60 cents back on the dollar for what was there in assets. We would normally be able to pay the liability 60 cents in the dollar, right? We did another thing. We went and paid everybody 100 cents. If we had only been paying the deposit insurance people, Canada deposit insurance would have paid \$60,000 on a \$60,000 deposit and would have hoped to receive back from the liquidator \$36,000, for a loss of \$24,000. If you made your deposit insurance \$100,000, you would receive only \$60,000 back for a payment of \$100,000. The question is keeping your liability down.

Mr. Ferraro: I will change the direction of the questioning.

Mr. Ashe: Can I get a supplementary then? Will you clarify for me? We have the illustration you just talked about: The \$60,000 would be 100 per cent and there would be a 60 per cent to 80 per cent return when assets were liquidated. As an example, let us take a simplistic one, \$70,000 in an institution that was being liquidated. You get your 60 per cent from CDIC; I understand that. Do you get your percentage of the liquidated assets on your other 10 per cent? In your case, to use the 60 per cent, you would get six per cent on your next 10 per cent?

Mr. Blenkarn: Yes. That follows through with another recommendation we have in here that no other report has: that is, what do you do about uninsured depositors? This has been handled on an ad hoc basis up until now. If uninsured depositors had lots of clout, they got paid; if they did not have lots of clout, they did not get paid. Of course, the great fear is, what happens to uninsured depositors in commercial banks? People do not deposit in commercial banks for the purpose of gaining interest on their accounts. Most businesses do not get interest on their accounts. Indeed, they pay cheque charges and all sorts of other charges.

Take the very simple case of a local manufacturer who on Friday nominally had \$500,000 in his account in the CCB. He issued a bunch of cheques, and there was perhaps \$600,000 outstanding in cheques. In reality, he was overdrawn by \$100,000. We close the bank on the weekend. On the asset side we seize his \$500,000 deposit; on the liability side, we are not going to honour the cheques. He is immediately out of business. Unless you are prepared to figure out some method of handling that problem, you can imagine that you would have a total catastrophe right across the country.

Mr. Justice Estey speaks to what would happen with a commercial bank and what really must be done in an interview in the current issue of Maclean's.

Mr. Ferraro: On the question of the composition of boards of directors, particularly in financial institutions, one of the recommendations is that you have a registry with the National Financial Administration Agency. Your feeling with regard to some presentations made by financial institutions--specifically, as far as we are concerned, trust companies--is that they could regulate their boards with their own self-governing committees, independently of the board, if that is possible, and subsequently look after the average depositor and cheque casher, so to speak.

Mr. Blenkarn: Our reason for this is that we felt there should be some control by the regulator of who became directors of financial institutions. Under the present corporate law, there is no control of who the directors are; effectively, anybody can be a director. I suppose in a democracy anybody ought to have these rights, but surely to goodness, when you are dealing with other people's money--it is not your money, it is other people's money--you ought to have a look at criminal records, a look at commercial reputation and a look at understanding of what people are doing before you approve the director.

10:00

Mr. Ferraro: Where would you get the names?

Mr. Blenkarn: They would be submitted by the trust companies, which submit names of people to be appointed; that is all. Normally they take on people who would be directors and who would bring business to their firms. By and large, those people would be approved. It would be a rare occasion when people were not approved.

The regulator would want some sort of control over who was and was not a director or a senior officer. It makes a great deal of difference with respect to the moral standard, the attitude towards other people's money, the investment experience and that type of thing. You can make all the rules you want, but the people are the players.

Mr. Ferraro: Let me play the devil's advocate for a minute. Let us assume you have that agency and that regulatory body in place. By and large, 99 per cent of the time the financial institutions are going to recommend people of good moral character with no criminal record who are acquaintances of theirs to some degree. In essence, is it really going to be any different from what they have today?

Mr. Blenkarn: Yes. For example, take a look at the defalcation in one of the trust companies last year; I do not remember the name. Two of its investors from western Canada had very bad commercial records.

Our regulator in Ottawa took the position that he did not want these people as the buyers of that company, because of their commercial reputation. Because he did not have the right to set aside the ownership or the transfer of shares or a lot of other things, he said: "Fine. I am cutting your leverage. Instead of having the right to be 20 to one or 25 to one, you now have the right to be 16 to one. With 16 to one, you do not have enough capital to cover your liabilities. You must put up \$5 million. If you do not put up \$5 million first capital, you are out of business. I am pulling your licence." It was as quick as that, and that is exactly what we did.

In that situation, one of the officers who bought the company came to Toronto, whistled around with the deposit certificate and has now bought a \$450,000 home for himself in Rosedale. You can understand why our regulators stepped in. That is the kind of thing we are talking about.

Mr. Ferraro: I understand what you are talking about. My concern is that things are not really going to change a hell of a lot from what they are today. Did the committee consider direct government appointments?

Mr. Blenkarn: We did not consider direct government appointments. We believe we should have a private enterprise answer to this. The financial

industries are not a matter of government taking over. If we were to have government appoint directors to them, then the financial industries would be a direct or indirect arm of government. That was our concept.

Mr. Ferraro: Let me say for the record that I am probably as strong a free enterpriser as you or anyone else in this room. It is almost hypocritical to suggest that and yet to have all the regulatory bodies we are suggesting. To a degree, that is what we are talking about.

Mr. Blenkarn: Unfortunately, in the kind of state we have, we look after our neighbours through the use of government. The only justification for this regulatory system is to make sure people who deposit their money or buy insurance can be assured that at least the money they put up is being looked after with a certain amount of security and safety. You cannot expect my mother to understand the balance sheet of a bank or trust company. Citizens generally believe their institutions are regulated and controlled. We have to make sure they are. We have had enough defalcations in the 1980s. We have to make sure it will not happen.

Mr. Ferraro: I have two more questions. Probably 95 per cent of the people out there really do not know the specific difference between a trust company and a bank.

Mr. Blenkarn: That is correct.

Mr. Ferraro: Your committee does not come out directly and say that trust companies should be banks.

Mr. Blenkarn: That is right.

Mr. Ferraro: Let me ask your personal opinion. Should they be banks?

Mr. Blenkarn: You are going to get a report next week from the Economic Council of Canada that may say that. It even goes on to talk about credit unions. When you walk like a duck and talk like a duck--

Mr. Ferraro: You might as well be a duck.

Mr. Blenkarn: That is one of the reasons the supervisor of trust companies and the supervisor of banks ought to be the same. Different features of a trust company are not necessarily as apparent when we talk about intermediary action. They should be.

The trust activities of some of our trust companies are quite enormous. For example, both Canada Trustco and Royal Trustco have very large trustee activities. Their assets under administration are roughly twice their intermediary business. Their intermediary business is highly touted to the public, but their trust activities are very large. There is a different field of business that has to be supervised in a different fashion.

Mr. Ferraro: My final question deals with the National Financial Administration Agency, which I personally find extremely enticing. If the support is there, the mindset, to form it provincially with industry and with the federal government, presumably when they sit down in Ottawa, where their head office would be--which is another argument that Toronto should be the financial centre for Canada.

Mr. Blenkarn: The only conceivable reason you might have for making

Ottawa the head office of an NFAA--I hope you would have only the president's place of business and the directors' meetings there. The inspection of intermediary action has to be where the action is.

Mr. Ferraro: That is the same argument for where the financial centre should be.

Mr. Blenkarn: It is right here.

Mr. Ferraro: You dealt with this when you answered Ms. Hart's question. What kind of specific reaction have you received from industry or provincial governments on discussions for the NFAA?

Mr. Blenkarn: It depends where you come from. In a speech the other day, Allan Taylor, president of the Royal Bank of Canada, talked about level playing fields and all the rest of it. He mentioned that he wants you to give him the right to be 100 per cent owner of security companies. He went on to say that banks should have their own special administrator. I have a hard time following that one, but you might take a look at his remarks.

We have mixed reactions on that. We have received some pretty strong reaction from a number of sources, from some of the banks and from some trust companies. We have received more reaction from the trust companies than from the banks. The question of a national administrator gets down to the next question of whether you are entitled to have subsidiaries and how you go into another field of endeavour. That would be much easier if you had one administrator, because you could then license the next item, with the same administrator having some control over the money under one queue or the other queue.

10:10

Mr. Ferraro: Let me finally ask the question. As will often happen, and as I am sure we in this room all know, many suggestions merely die. They sound wonderful in the press, but they merely die. Is the suggestion of the NFAA going to die?

Mr. Blenkarn: It may not have come yet. We thought the suggestion we made was a bit far out in terms of what would necessarily be politically acceptable yet, but we made it because we wanted to demonstrate in our report how essential it was to treat all the intermediaries--and we recognize from a security point of view; I do not mean a licensing point of view put through agents and so on--by the same system of inspection, supervision and rules.

Mr. Ferraro: Because money is money, no matter where the hell you have it.

Mr. Blenkarn: That is right, and understand that. If you do not have that system, what you absolutely have to have is very standardized legislation and very standardized inspection procedures.

It seems to me that if you are going to wind up with deposit guarantees or perhaps life insurance guarantees or property and casualty company guarantees--because as you know, we have had a number of defalcations by property and casualty insurance companies--you have to have some sort of national system of collecting money and ensuring that if there is a default, you can take it over and liquidate it and so on.

Mr.-Ferraro: Will it be born, in your opinion?

Mr. Blenkarn: I think eventually we will come to this. Whether there is too much local desire to do things on a parochial and provincial basis, I do not know. I think that is really their problem.

Another problem we have is the old problem we all face with our public service. They are all there to protect their own turf. I suspect your officials are there to protect their turf. They want to make sure they have an act that is a little different from someone else's and an inspection system that is a little different from someone else's, and they want to make sure they have their opportunity for their thing. This is one of the unfortunate problems of overlapping jurisdictions.

Mr. McFadden: On that topic, it is interesting that you are here today, because our Bill 116 may get second reading, or at least a second reading debate would start today. I also understand from a recent meeting I had that the federal government will be in a position fairly shortly to bring in the federal legislation.

Mr. Blenkarn: We hope to be able to bring in a package of bills, or one bill--I do not know exactly whether it is going to be a series of bills wrapped in blue ribbon or one big bill--before Christmas.

Mr. McFadden: Clearly, this whole area of harmonization is going to be very real and is probably going to have to be considered over the next two months. Otherwise, we run the risk of having major legislative change going perhaps not necessarily in conflicting lines but in lines that are potentially not quite parallel.

Mr. Blenkarn: That is right. The federal government initiated some very major studies across the country, not only our study as a finance committee of the House but also the Estey committee, the Wyman committee and a Coopers and Lybrand committee on the actual inner workings of how the Canada Deposit Insurance Corp. worked and how the superintendent should work. They spent a great deal of time looking at the problem across the country. On top of that, there have been a number of private initiatives by various groups.

It is important that the matter be brought to a head right now. In Ontario you had the Dupré task force, which did a reasonably good job. It is time the matter was brought to a head with legislation. We think it is essential to get that legislation immediately.

Mr. McFadden: I wonder whether I can now move on to another area, the area of self-dealing of various types. During the several weeks of hearings we have had to date, we have been getting very conflicting views on the reasons that there have been a number of failures or near collapses of financial institutions. One school of thought says that it is basically self-dealing, that if you look into most of it, you will find self-dealing behind it. The banks have more or less proposed that this is the major problem, that the big villain in all this stuff is self-dealing. They have put that out.

Another school of thought--it is mainly the trust companies that have been saying this--is that self-dealing has not been behind most of it, that bad management is the key to it. They point to the CCB and the Northland Bank as examples where it was not so much self-dealing as just bad management. Of course, the banks point to Greymac, Crown Trust and Seaway as their models for the problem.

On the basis of your research, which has been quite extensive, and your work in this field, have you had a chance to reach any conclusions on the importance of self-dealing and whether it was the key factor behind the collapses? Was it one of many, or is it the major lesson that should be learned?

Mr. Blenkarn: Self-dealing is always a problem, but I do not think self-dealing was the cause of the collapses as much as bad management was. There is no question about it, you have had some self-dealing that has increased the loss, but the companies might have gone out of business anyway.

Seaway/Greymac was an operation that was attempting to grow at a far greater rate than the realistic market forces would allow. To make that growth, they took on assets and played around with asset valuation and that type of thing to give them profit growth that was not there. They made a number of transactions that were essentially designed to force ahead growth of the companies that, on any downturn, would likely have led to a default. The same can be said for Pioneer Trust and Fidelity. In all those collapses there was an element of self-dealing. Obviously the element of self-dealing in the Rosenberg/Markle effort in the Seaway, Greymac and Crown affair was up front; we could see it; but a number of other things, not just self-dealing, were happening to cause that collapse.

In the Fidelity case, there were transfers to Fidelity of property in and around Edmonton at prices probably beyond the realistic level at the time, although appraisers clearly said they were satisfactory. There were also transfers into capital to give Fidelity the growth or the capital base on which to take deposits. You sell the company overvalued land. That gives you common shares, and when you have these shares, you have capital, which means you can go out and raise more deposits. Did the sale of the land cause the collapse or was it the rotten way the deposits were invested? I suggest it was probably the rotten way they invested the deposits, because they had to get such a high return, and then they had bad management results. There is some of that in Pioneer Trust as well.

I think the bank's suggestion that it was totally a matter of self-dealing is an effort to maintain the 10 per cent rule of ownership, which I do not think has served as well in small institutions. In very large institutions it is important that there be widespread ownership, but small institutions need a godfather to look after them.

10:20

That was particularly so, as was pointed out to us, with respect to Atlantic Trust in the Maritimes in the course of collapse. The Misener family has a major interest in that trust company and has managed to turn it around. It is now profitable. It is now on the line. Why? They own pretty well the whole thing. They can afford to put in a chunk of fresh capital to get it straightened around.

In our view, a small institution is well served by a major shareholder who has something to gain by its success and is, therefore, prepared to do more than normal to make it grow. I suspect that the problems we had with the Northland and the CCB would not have been there had those banks had major shareholders. They would not have got into some of the bad deals and they would not have expanded as rapidly as they did. I am not at all convinced the 10 per cent rule is important for self-dealing.

Mr. McFadden: Moving on from there to the question of directors, which is, of course, related to management, we have been talking at considerable length to different witnesses about the role responsibility of directors, whether outside directors, inside directors, or whatever they happen to be.

The provincial legislation would provide for outside directors to be at least 30 per cent of the board of any financial institution. We have received fairly strong submissions about expanding that considerably, so the management of the company would not have a majority on the board at any given time, in the best interests of the depositors. In the long run, that would remove any suspicion of decisions being made contrary to the best interests of the depositors or the financial integrity of the institution.

Do you have any views about the appropriate percentage of outside directors that trust companies and other financial institutions should have?

Mr. Blenkarn: Yes. I think at least two thirds of the directors ought to be outside directors. It is bad news when you have the officers of the company effectively owning the board of directors. It does not bring the outside advice you need. You need a new outside board that is prepared to look at how the institution is operating.

The audit committee ought to be entirely outside directors. After all, that is what they are there for, to make sure that they have conversations with the firm's auditors and are able, on an independent basis, to take a look at transactions without being swayed too much by the activities of management.

Ms. Hart: May I have a supplementary on that? Perhaps I think of outside directors differently than you do. As a lawyer, I know why lawyers are on boards of directors and I do not think it is necessarily in the best interests of the depositors. There may be a less-than-independent view taken by a director who is a very large depositor and whose interests are too tied up with the management to enable that director to have an independent judgement. Do you have any views on that?

Mr. Blenkarn: Yes. You always have that problem. The question really is, to what extent should directors be allowed to deal with the organization? I am a bit ambivalent on this, I have to admit. Our trust company legislation prevents directors from borrowing money or having transactions with the trust company. Our federal legislation with respect to banks allows bank directors or their companies to borrow from the institution. Mr. Justice Estey in his report suggested bank directors should not be entitled to borrow, but that really does not mean very much because he did not go on to say their companies should not either. Most bank directors I know never go to the bank to borrow any money.

Ms. Hart: They do not have to.

Mr. Blenkarn: That is right, but their companies sure do. I do not think he came to grips with the issue. The obvious reason people are often put on bank boards of directors is because they bring business to the bank. To some extent, I suspect, trust companies bring people aboard for the same reason. They are good for business. They bring business to the firm or to the bank.

To some extent, I suspect trust companies bring people aboard for the same reason. They are good for business, they bring business to the firm. I

have no fault with that. After all, it is in the interest of depositors as well as shareholders that the organization be strong and grow and have a good commercial reputation and so on.

However, you have to have outside or independent directors. Whether or not lawyers, who are retained from time to time, are independent enough, they certainly qualify under current rules as independent or outside directors, because they are not on the payroll. You have to look at it that way: Are you on the payroll or not?

If you are a regular employee, in other words, an officer of the bank or the trust company, and you are a director, that is one thing. The other people may get some legal work out of the bank or the trust company, and perhaps they have corporate accounts there, but they certainly have a slightly different look at it than the people actually doing the work. That is the distinction. If you put the loan officer who made the loan on the board of directors to approve the loan and make such loan officers the majority on the board, there is no point in having directors at all.

Ms. Hart: Let me put an example to you. The banks' solicitors in Toronto could probably not survive without the banks as clients. I am sure they would agree with that statement. Yet they sit on the boards of directors. We are not talking about a little money, we are talking about an infrastructure of perhaps 100 people. How can they conceivably have an independent judgement about what the bank is doing?

Mr. Blenkarn: Your point is well made.

Ms. Hart: Thank you.

Mr. McFadden: Going back to the question of directors and whom they are responsible to, the classic model under corporate law is that directors are responsible to shareholders, essentially. Under law that remains the situation. We have discussed whether in a deposit-taking institution directors do not also potentially have a responsibility to depositors. A couple of the people who have been witnesses here from trust companies have said, "We actually do feel we are responsible to depositors."

The point you made earlier is well taken, in the sense that the shareholders in most deposit-taking institutions have a very small stake in comparison to the total value of the company, particularly when you compare that to the typical smaller manufacturer and so on. I do not know whether you could put this in legislation or whether it could become a part of the regulations, but I would like to ask whether you think directors should be considered to have some form of obligations to depositors as well as shareholders, which would be unique in this area perhaps.

Mr. Blenkarn: The legislation perhaps ought to say that, but you ought to appreciate that cross-company directors, and indeed bank directors, are usually appointed because they are people who deal a great deal with the institution.

You are appointed a trust company director because you bring the trust company a lot of business, and it is usually deposit business. They are not interested in your becoming a big shareholder, because if you are a big shareholder, you can vote yourself a director. If they seek you out as an independent director, they do so because you are able to bring trust accounts, as a lawyer, or perhaps directly or indirectly to influence other business to come to the firm. You are a very important contact in the community.

When you go there, as a director, you are darned concerned from your personal point of view that this deposit-taking institution is operating pretty much aboveboard. If it is not, your companies are front and centre in terms of a collapse.

Mr. McFadden: Your feelings are that they are sort of representing themselves to some extent.

Mr. Blenkarn: In many senses, yes. They have their own self-interest to protect, and to a large extent their self-interest is to make sure that the institution is operating in the best interests of depositors.

10:30

Mr. McFadden: Does that get around the point about government-appointed directors that Mr. Ferraro raised a few minutes ago? It is not the government's interests per se we are trying to protect; it is the depositors' and the financial institutions' interests we are trying to protect. Perhaps if we redefine the responsibility to some extent in the legal sense, so that directors realize they have a somewhat higher responsibility, directors may take that responsibility a bit more seriously than just worrying that they are looking after the shareholder who is only in there for one in 20 or one in 25.

Mr. Blenkarn: That is one of the reasons for the approval of directors in our report or for directors coming from a list. Mr. Justice Estey says "approved directors"; we say "from a list." In any event, a number of the reports have addressed the quality of directors. You are talking about that: whether they should be independent, how many should be independent and so on. There is no question about it. You must have people who are of sterling character and who take their responsibilities as directors seriously.

Mr. McFadden: The problem we will face is one Ms. Hart raised a few minutes ago. If you are on there, you were elected to the board at a shareholders' meeting on a slate that was proposed essentially by the shareholders. Even though you are outside, the question is, how independent are you?

If the law says you have an obligation--forget about where your appointment came from--and if anything happens, you can find yourself obliged to all those people out there who are mere depositors. That might have a salutary effect to some extent on directors taking seriously their responsibilities in this type of institution.

Mr. Ferraro: You may not have too many people who want to be directors after that.

Mr. Blenkarn: They will look at some of the suggestions with respect to director responsibility. People are already looking very seriously at whether they want to be directors.

Ms. Hart: Maybe we will get some new blood for a change.

Mr. Blenkarn: I think that is right, particularly if we talk about approvals and that type of thing. People will not want to take on the obligation unless they really want to do the work. It depends on the kind of people you have, whether they are just ciphers for the controlling shareholders or people who have their own interests in the company. It depends on the people and the quality of the people you appoint.

Mr. McFadden: It goes back to the original thing about good or bad management and good or bad directors.

Mr. Blenkarn: That is right.

Mr. McFadden: The final item I want to ask you about relates to this business about financial conglomerates, conglomerates that are in manufacturing, the financial service sector and everywhere else.

One of the witnesses before us talked about Japan. One of the reasons for the strength of the Japanese economy has been the tight interrelationship among their financial institutions, manufacturers, exporters and all their trading companies. From what I have read and what I have understood, it appears their banks are tied up intimately in all areas of their economy. It is argued that one of the reasons for the strength of the Japanese economy is that these various institutions are constantly behind all the various initiatives they take worldwide in international trade, development of new products and new plants and everything else.

We have not followed that course of action. I have some questions about it, but I would just like to raise with you whether you or your committee have given any thought to that in terms of the international setting. We have received pretty strong submissions that we have to make our securities and all our legislation reflect the international marketplace and the competitive world Canada finds itself in.

Far from taking financial institutions out of conglomerate hands, trying to have them offer only financial services and stopping dealings between nonarm's-length companies, does the logic of that mean that in the long run we are going to have to encourage that to take place because of the kind of competition we are up against worldwide? Where do you see that going?

Mr. Blenkarn: You have to be very careful about allowing banks or financial intermediaries to become owners of things in the real world. Bankers are not good merchants. We had a fair hearing on that issue when we were doing the Bank Act. The banking fraternity wanted to become involved in car leasing. If it is strictly financial leasing, I am not too upset about that; but when it comes to running used car lots and the rest of it, one begins to sit back and say: "After you do the used car lot, what is your next step? Are you going to have a dealership? Where do you go?"

The answer is that we are trying to have the kind of society we want and we surely do not want our financial institutions running the business world. Bankers are tough enough to get a loan from, let alone have them run everything in the way bankers operate. We believe that bankers ought to be bankers and businessmen ought to be businessmen. Businessmen who are in the trading business ought not to own banks, and banks ought not to own businessmen, because they have entirely different ways of doing things.

I guess I am not so sure the Japanese society model can easily be applied to our society and I am not so sure we would want that. We already have enough problems with banks getting involved in the business world, perhaps too actively. We have a thing called the Dome Petroleum loans and the Turbo loans, and we sometimes have banks involved internationally in sovereign loans to certain foreign states. If we keep the banks from actually being part of the transaction, we may be better off. It sounds wonderful as long as everything is going up and as long as we are making profits. It improves the bank's balance sheet, or vice versa.

What we are really concerned about, if we are to be regulating financial institutions at all, is the depositor, the premium payer or the saver for a pension. That is the reason for the regulation and that is the reason we do not want banks involved in an ownership position in the real world.

Mr. Chairman: Ms. Hart, do you have another question?

Ms. Hart: No.

Mr. Chairman: Are there any other questions? Mr. Blenkarn, I appreciate the thoroughness with which you have discussed this matter with us. In your usual candid way, you have made things extremely clear from your perspective. It is obvious that the two levels of government have to work together on this. We appreciate the time you have taken to come and clarify a number of these matters with us.

Mr. Blenkarn: I am delighted to have been here. It is a good idea that parliamentarians talk together on these issues, and it is important in our nation that governments work very closely together. After all, the public does not care which government did it. It is government that did it to them, and as long as we can do it to them as little as possible--

Mr. Chairman: That is right.

Mr. Blenkarn: It is also for the general benefit of all so that we are all better off.

Mr. Chairman: It is also the case that our committee, being a new standing committee on finance and economic affairs, appreciates your assistance in that regard. You mentioned to me just before the committee met the way in which your committee is now meeting to look at some budgetary matters. We are going to be dealing with that very shortly as well, so the extent to which good communication can take place benefits everyone.

Mr. Blenkarn: Particularly if we get into tax reform, it might be important that we take a look at things. The present income tax system effectively gives one third of the revenue to the provinces and two thirds to the federal government.

10:40

Mr. Chairman: You are suggesting it should be the other way around?

Mr. Blenkarn: We always have the problem that if we reduce rates, we have to be concerned that the provinces, for economic reasons, do not just raise rates to change the ratios.

Mr. Ferraro: There is too much concentration at the federal level.

Mr. Blenkarn: I know that. Ontario is carrying the can for the whole country these days. If we could only get the economy of the rest of Canada rolling the way we have it rolling, certainly in southern Ontario, we would wipe out the national debt in no time flat.

Mr. Ashe: Not that debt.

Mr. Chairman: One of the things we thought might be of some value down the road, when we both get into these issues, is that there might be a joint meeting of the two committees.

Mr. Blenkarn: That would be a very good idea. I would be delighted to set that up.

Mr. Chairman: That is good to hear.

Mr. Ashe: We will make it in Nassau.

Mr. Blenkarn: That is a fine idea too.

Mr. McFadden: You are paying, are you?

One question I had in terms of your committee setting up your agenda, you mentioned various things you are looking at.

Mr. Blenkarn: Yes, we set our own agenda. Our parliamentary rules were changed so that the committee can inquire into anything it wishes.

Mr. Chairman: We can do that too, provided we are given time. The Legislature also gives us other things it wants us to do, which makes it a problem.

Mr. Blenkarn: That is there too. Obviously, if you get a House order to do something, you are obligated to do the House order thing first, but not necessarily; the respective whips would not be very happy. What we have is a right, under our new rules, to start an inquiry and to proceed with that inquiry, calling witnesses and doing that inquiry the way we wish to. That is a big improvement.

Ms. Hart: As a first step in federal-provincial co-operation, perhaps from time to time we could exchange agendas so that we know when something is coming up on which we might like to say something to you or you might like to say something to us.

Mr. Blenkarn: That is a possibility. There is no reason we could not do that.

Ms. Hart: I do not mean for every meeting--

Mr. Blenkarn: Yes.

Ms. Hart: --but when you are embarking on an inquiry. Did you mention credit card interest?

Mr. Blenkarn: We are doing interest on credit cards. We have a break next week, the November 11 break, which enables members to go back to their various ridings across the country and take part in Remembrance Day services.

We do not sit next week, but the week after we come back, I am taking my committee to Washington to go over tax reform in the United States. The following week our economic panel will be holding three meetings to go over credit card interest to determine whether credit card interest charges are fair and whether we should make recommendations.

There are several kinds of credit cards and several charges on credit cards. The fact that you have a Visa card does not mean that you pay the same interest as your friend who has a Visa card. If he deals with another bank or institution, it has different interest rates.

Some of the shopping complexes charge something like 28 per cent

interest; they say it is only 24 per cent interest. Why they charge that kind of interest rate is hard to say. It depends on how much free time they give you on your credit. We are inquiring into the whole question of what merchants pay for credit card service and what people pay for interest rates on credit cards.

We have had our research department through the library do a fair amount of work on it so far. We have narrowed down the witnesses to about half a dozen. We have key witnesses in particular kinds of things. For example, we have the Retail Council of Canada with a brief on the cards of major department stores: Sears, The Bay and that type of thing. We have the banks coming with respect to Visa, Mastercharge and that type of thing. We have a trust company coming with respect to how they do their advertising for credit cards and how they promote them.

Basically, we have representatives coming. We have narrowed down the various classes to a select group through our research operation. We will make a report on the matter. On a preliminary basis, our research does not lead us to believe there is any massive overcharging, but some of our members are not so sure.

Mr. Ashe: I think you will find that the current range in the marketplace, believe it or not, is 9.75 per cent to 28.8 per cent.

Mr. Blenkarn: Something like that, yes.

Mr. Ashe: Not something; that is what it is. The low you will find is 9.75, and 28.8 is probably the high.

Mr. Blenkarn: Is that right? I have 14.5 or something.

Mr. Ferraro: How would you know, George? You never charged a thing in your life.

Mr. Ashe: Like hell; that is why I know.

Mr. McFadden: You mentioned that you have an economic panel.

Mr. Blenkarn: Yes. We broke down our committee into two panels. We have a tax panel, which has six members plus myself--I sit as chairman or ex officio on both panels--and the economic panel, which deals with the class of thing we were doing today: credit card interest, the Canada Deposit Insurance Corp., the Bank of Canada and how it operates, that type of thing, and the economic policies of the Minister of Finance. It deals strictly with economic issues. The other one deals strictly with taxation issues, which are the sales tax, the excise tax and the income tax.

Mr. McFadden: We have talked about panels once or twice before. The problem we have with our committee is the work load. We have only three hours a week because of the jam-up here.

Mr. Blenkarn: Why do you have only three hours a week? My committee has five meetings a week of two to 2.5 hours each.

Mr. Chairman: We are new boys on the block, and there is a lot of legislation in committee.

Mr. McFadden: The only thing that strikes me about this is whether

we could not panel some of this, particularly when a witness is coming. Each party would be represented, but when we are looking at various matters we might be able to maximize our time. There is usually another committee room vacant, and I wonder whether it would not speed this thing along when we are having hearings.

Right now we cannot do the agenda we have in a reasonable length of time with the number of hours we have. It is foolish. We are getting legislation and estimates referred here. We are going to have a study of economic government. We have the current study we are doing on corporate concentration. The time is not allocated. The panel concept may be something we should consider. I am not aware of any other committee that does that around here, but maybe there is. David, you may know. I am not aware of any right now that are doing it.

Mr. Blenkarn: How big is your committee?

Mr. Chairman: Eleven.

Mr. Blenkarn: My committee is 13 at present, but most House of Commons committees are only seven. We are dealing from a larger pool of members, so that members are basically in only one committee. I break my committee into two committees of six plus myself.

Mr. Chairman: That makes sense.

Mr. Blenkarn: Rarely do I have any more than four or five members at a meeting when we are listening to witnesses or discussing a matter. Then we get the whole committee together to work over a report. There are representatives of each party on each panel, so it is not a one-party thing in one panel or anything like that.

Mr. Chairman: Is there no big problem in educating the rest of the committee at the time of the report? I do not imagine there would be.

Mr. Blenkarn: Our committees work quite collegially, so that party lines do not make much difference in the way we approach things, though each party has its own philosophy that it brings to the issue. However, when you are dealing with banking, for God's sake, who cares? It does not matter whether you are a communist or a Kublai Khan capitalist. If you write a cheque on your bank account and you have money there, you expect to get paid. That is all there is to it, and if you do not get paid, you want to know why. Party lines do not mean very much in most of the issues. Even in taxation they do not mean that much until you get some key issues such as capital gains taxes, minimum taxes or something like that.

Mr. Chairman: I understand you have one tax accountant working for you on your tax panel.

Mr. Blenkarn: We are retaining David Weyman from Peat Marwick, who was with the Department of Finance last year as assistant deputy minister for tax planning. We are bringing him on stream because he knows how the machine operates down there and is an exceptionally good communicator on concepts as far as the members are concerned. We are also having on the tax panel two people from the Economic Council of Canada who have done a great deal of work on tax systems.

Mr. Chairman: You will have a total of three.

Mr. Blenkarn: We will have a total of three. We have one person in the library working for us as well.

Mr. Chairman: And on the economic panel?

Mr. Blenkarn: The economic panel will have two people working on it, as well as committee members.

Mr. Chairman: The whole committee is going to Washington to look at tax reform.

Mr. Blenkarn: Yes, the whole committee is going to have to understand the tax reform matters. We may have to have the economic panel set aside for a while next spring when we really get into public hearings across the country on the business transfer tax, for example. As you may know, we are proposing to get rid of the manufacturers' sales tax and go to a form of value added tax that will be applied on services as well as manufacturing. That will require pretty extensive public hearings because you cannot do these things without getting input.

We are also making some very substantial changes in the Income Tax Act, but we hope to lower personal rates and take some of the juice out of the advantages that corporations currently enjoy. That may also cause an element of controversy.

Mr. Haggerty: Is that an allusion to deferred taxes?

Mr. Blenkarn: No. Deferred taxes are really something that is developed as a result of taking a larger capital cost allowance than your accountant believes is reasonable in relation to the real depreciation of an asset. It boils down to whether your capital cost allowance structure is correct. If you had your capital cost allowance structure correct for each business, in all probability you would not have deferred taxes.

Mr. Chairman: Before you go, Mr. Haggerty, I had you on the speakers' list on corporate concentration.

Mr. Haggerty: I was looking at the co-operative credit institutions. I guess the committee suggested that they should be encouraged to develop ways and means to enable the Canadian Co-operative Credit Society to establish a branch if the provincial central so desired. Can you expand on that a little bit?

Mr. Blenkarn: Members of this committee may not appreciate that unless they know the co-operative movement or the credit union movement well. The credit union movement is essentially a provincially organized system, and each province has a provincial central. The 10 provincial centrals amalgamated to form the Canadian Co-operative Credit Society, which is regulated and supervised federally. It operates as a system whereby it takes deposits or surplus cash that a central would have or a large credit union might have and invests it in the marketplace or with credit unions that need the money. It acts as an intermediary for credit unions.

It has expressed some concern that its powers were too limited; that it was allowed to take in deposits only from its members, its members being limited to the 10 centrals; that it ought to be able to take in money from all

credit unions directly, and that it ought to be able to take in deposits generally in the marketplace on a short-term basis to assist it with the cost of running its intermediary operation..

We said that if they are going to do that, why not become a bank? After all, they are widely held and there is no reason they should not have all the banking powers they want. So far, they have shrunk away from that idea but I think only because they believe that the word "bank" is a nasty word. After all, people deal with credit unions so they do not have to deal with banks. It is the old story: If you want to be a duck, why don't you be a duck? Since our report has been out, I have had conversations with credit union officials who have suggested that it is not a bad idea. "Why do we not do that?" That is where that came from.

Mr. Haggerty: One of the difficulties that may face the bill before the Legislature in dealing with a credit union as a financial institution is that when they take over a defaulting credit union--it is under the act or the bill suggests it--it passes on to the larger credit union that will take it over. To pay that debt off, the bill indicates it would have to be within a five-year period.

One of the difficulties credit unions are finding at present is they cannot it off in five years because the return on their investment, operating costs and everything, is about one and one half per cent, I guess. They say that if they had to absorb a credit union in default of a few hundred thousand dollars, or maybe more, there is no way they can do it. What is your opinion on that?

Mr. Blenkarn: Credit unions have generally had trouble across the country. The government of Manitoba had to bail out its central with something like \$20 million, which is a fair amount of money for Manitoba. Alberta has had to bail out its credit unions. They have had problems in Saskatchewan. They have not had problems in British Columbia, but BC is blessed with some very large credit unions. Currently, there are problems with the credit union in Surrey. That credit union became involved with the Northland Bank and lost \$7 million or \$9 million in one fell swoop, which was expensive and ate up most of its capital.

The credit union movement has problems of competition with other financial institutions. It is difficult, when you put a narrow time limit on it, to make it possible for it to perform in a default situation to get enough money back. I understand that and I think you may have to hear some evidence on it to see whether it is really possible.

Mr. Haggerty: I understand that the bill has an Ontario securities insurance fund.

Mr. Blenkarn: You are setting up a guarantee fund for credit unions, much as they have done in other provinces. Presumably that fund is almost like a Canada Deposit Insurance Corp. and will effectively bail out the depositors at defaulting credit unions. You are going to try to get that money back, I presume, in a very limited period of time. I think you will find problems there.

Mr. Haggerty: I think it is suggested the period be five years and they feel they cannot handle it in a five-year period..

Mr. Blenkarn: I can understand that they may have difficulty. On

small amounts, it is not hard. If a small organization goes under, that is quite easy to handle. It is when a relatively large organization goes under that it is not easy to handle.

Mr. Chairman: Thank you very much.

ORGANIZATION

Mr. Chairman: Let us turn our minds to a few housekeeping matters in the time remaining. You have in front of you the report the Treasurer (Mr. Nixon) tabled on Monday. We have that report to deal with and we have Bill 26 to deal with. We do not have Bill 131, which last week we thought we would have, because it has been sent to another committee. The advertisements have now been placed.

Mr. Cordiano: There are no opposition members. We might as well just go out and discuss this among ourselves. They are not interested.

11:00

Mr. Chairman: For the record, I think Mr. McFadden is coming back shortly. The clerk can tell us where we stand with regard to response to the advertisements we placed on Bill 26. We will start with that. Mr. McFadden has an interesting idea. I do not know whether we can actually set up a panel that will look at Bill 26 while the rest of us continue to deal with the economic review. It is an idea that is churning in my mind right now.

Ms. Hart: Why not?

Clerk of the Committee: I will bring the committee up to date. The committee decided to invite five groups that Mr. Ferraro suggested. They were the Consumers' Association of Canada, the Canadian Restaurant and Foodservices Association, the Canadian Manufacturers' Association, the Canadian Organization of Small Business and the Canadian Federation of Independent Business. I contacted the five groups and informed them what the committee is planning to do. I received a response yesterday from the Canadian Federation of Independent Business. They feel they will not have anything to contribute to this particular bill at this time. The other groups have not contacted me yet.

Second, I received two letters. One was from the Massey Hall and Roy Thomson Hall Corp. expressing a desire to appear before the committee to discuss Bill 26. They will appear on November 20 at 9 a.m. The second group was the All-Way Transportation Corp. I have contacted them and they have not got back to me. The third group was the Ontario Trucking Association. They requested to appear on Thursday, November 13, at 9 a.m. In reality, we have only received three notifications from the advertising and I have received five phone calls for information. That is the total so far. The advertising ran only one day. The public has the opportunity to call us until Friday, November 14, if they wish to make a presentation to the committee.

Mr. Chairman: We hope all the presentations can be heard in those two days.

Clerk of the Committee: That is correct.

Mr. Chairman: On November 13 and 20.

Clerk of the Committee: The advertising appeared in the three Toronto papers on Wednesday and across the rest of the province on the same day. I have proof of that from the three papers.

Mr. Chairman: It was in the Kitchener-Waterloo Record last week.

Clerk of the Committee: Yes.

Mr. Chairman: All right. It sounds as if that is in order. We hope to fill up the rest of next week's schedule in the coming days.

Clerk of the Committee: It usually takes a couple of days for them to prepare themselves and make a phone call. In the advertising, there is a note that they have until November 21 to send us a written submission. They have time to do one or the other.

There is another matter the committee should discuss. After we finish with the public hearings, what does the committee wish to do with the bill? From the last meeting, my understanding is that we simply report back to the Legislature without amendments because the committee does not wish to go through the clause-by-clause of the bill. Do I understand this correctly?

Mr. Ferraro: Then why are we--

Clerk of the Committee: For the public hearings.

Mr. Chairman: The only other tax bill that has ever been put before a committee was referred back without comment from the committee.

Clerk of the Committee: My understanding is that in the case of a budget bill, it is a very serious matter in the clause-by-clause because in reality you are supposedly amending certain sections of the Treasurer's budget. It is a serious matter that the members should consider.

Mr. Chairman: The rules do not permit us to increase taxes, although we can decrease taxes.

Clerk of the Committee: That is correct.

Mr. Cordiano: They do not want us to make a profit.

Clerk of the Committee: That is correct.

Mr. Ferraro: On a point of information for me--I am naive--if we cannot make any suggestions to the House beyond giving the public an opportunity to blow some wind, what purpose do we serve?

Clerk of the Committee: There is no reason why you cannot report to the Legislature and make suggestions. That is part of your--

Mr. Ferraro: That is not what I understood was said.

Clerk of the Committee: In the process of clause by clause, the committee amends the bill itself. As part of its report, there is no reason why the committee cannot suggest that the Treasurer review specific sections based on what we have found from the public hearings.

Mr. McFadden: We file the report with the Legislature. It will then

go into committee of the whole House to do clause by clause with our report in hand.

Clerk of the Committee: That is correct.

Mr. McFadden: What has happened to Bill 131? Is that coming here too?

Mr. Chairman: No.

Clerk of the Committee: The bill has gone to the standing committee on general government. It will decide what approach to take, similar to ours.

Mr. Ferraro: What bill is that?

Mr. McFadden: It is the amendment to the Assessment Act.

Mr. Chairman: Are you suggesting we may be ready to report back in two weeks?

Clerk of the Committee: If we have heard all the public presentations by November 20, there is no reason why a half hour could not be put aside on that morning for you to discuss what the committee has found from the presentations, write the report and present it to the Legislature that afternoon under reports to the Legislature.

Mr. Bond: Would the written submissions be forwarded?

Clerk of the Committee: No. The written submissions are part of this committee's record. Like the interim report we have made, suggestions could be made as part of that. We could say: "We make this report to the Legislature. We have found (a), (b) and (c). This is our recommendation to be considered by the House."

Mr. Chairman: If we are not going to go into clause by clause, perhaps we should not divide ourselves into two panels at this stage. Does anyone have a comment on that?

Mr. Warner: What is the purpose of the two panels?

Mr. Chairman: It occurred to Mr. McFadden that having two panels might help solve our logjam problem so we could get on to our economic review, etc.

Mr. Warner: It may not solve your problem. It is worth taking a look at. However, there will still be a serious time problem because two panels will have to be accommodated in a physical setting.

Mr. Chairman: That is right. Presumably they would be sitting at the same time.

Mr. Warner: If you want them to sit concurrently, there are other committees and you have to consider what is available from Hansard and what clerk staff is available. You also have to consider when you would sit. If the panels sit concurrently, they will be up against other committees. Generally, the only slack time around here is Monday morning which is normally not attractive to members from outside Toronto.

Mr. Chairman: We actually do not have permission from the House leader to sit other than Thursday morning.

Mr. Warner: Permission is also required from the House. The standing committee on the Legislative Assembly has a subcommittee that deals with members' services. They meet at their own pleasure and report back to the full committee, but they are meeting as a subcommittee and do not require the services of Hansard and so on. They can set their own sitting time and meet wherever they want in the building. You are suggesting something different. It is two panels and, with respect, although I am not a regular member of this committee, I suggest that this suggestion go back to the respective House leaders for their consideration. For starters, approval from the House will be needed before two panels are set up.

11:10

Mr. Cordiano: I want to say at the outset that it is admirable to try to speed up the process and get as much work done as possible, but I do not think it is feasible, because an extraordinary number of committees are meeting. Some of us have other duties as well. It will make it awfully difficult if we pick another day for the panel to meet.

Mr. Chairman: I do not think we can pick another day. They have told us we have to do everything on Thursday mornings.

Mr. Cordiano: That is understandable. I do not think we should fret to try to meet the deadlines. We are working as hard as we can and trying to do as much as we can in the time allocated to us. By the same token, there are other committees under the same time restraints, trying to do the best they can with the time given to them. I do not think we have to be Herculean in trying to meet our objectives in a short period of time.

Mr. Chairman: Mr. McFadden broached an interesting idea, but I am not suggesting we do it. If we have Bill 26 under control this month, we should be able to get into our budget problems shortly thereafter.

Ms. Hart: We should keep the idea in the back of our heads because it is a good idea.

Mr. Chairman: Yes. It is a reasonable way to do it.

Ms. Hart: It may be that if we have another task that lends itself to splitting into two panels, then we will do it.

Mr. Warner: When some of us took a look at the rules, we were attempting to accommodate the splitting of committees by extending the sitting time so that the time available from the end of question period could be split in half. The only way to do it in practical terms is to extend the sitting time. In other words, instead of from 1:30 p.m. to six, it could be from 1:30 p.m. until 6:30 p.m. or seven and the amount of time spread from three o'clock until seven. That is four hours that could be split in half for one committee, which would be half of this group, to do its number and then go; the other half does whatever it has been assigned. Only half the members are tied up. We have twice as many members as we need to do many of the things that come before a committee.

Mr. Ashe: Not as a rule. There are twice as many members. This morning we started with about four and we ended up with a maximum of eight.

Mr. Chairman: I do not think it is within the purview of this committee to discuss it. It is an interesting scenario too, but we should get back on topic.

Clerk of the Committee: There is no reason the present subcommittee cannot do more of the clarification and organizational work than the main committee does and free the full committee to proceed. There is no reason this discussion cannot be held by the subcommittee and then reported for approval by the full committee.

The other item I wish to clarify is that, at the present time, we are right on schedule. We have two meetings on Bill 26; possibly, that should finish Bill 26. There is no reason, at the end of this month, on November 30, not to have a subcommittee meeting some time from November 20 and November 27 to set the groundwork on approaching the review of the Treasurer's (Mr. Nixon) paper. For instance, the committee might decide to suggest hiring extra staff, to proceed with the advertising or to set extra days for meeting in the future. All that work can be done in between with the subcommittee, and then the subcommittee could report for its approval.

Mr. McFadden: Is the subcommittee what we would normally call a scheduling committee, or is this another committee?

Clerk of the Committee: Just a subcommittee.

Mr. Chairman: Scheduling committee.

Mr. Ashe: It may have been discussed while I was out meeting my students, but did we get rid of the estimates?

Mr. Chairman: No, but there are rumours that we may and--

Mr. Ashe: I know I was badgering the Treasurer the other day when we were talking about Bill 131 and where it would go. We have to get something off our plate, and that seems to be--in the view of the majority of the committee, anyway--the best one to get rid of.

Mr. Chairman: We put the estimates at the bottom of our priority when we reach it.

Mr. Ashe: You just will not. That is the point.

Mr. Chairman: To get back to what Mr. Carrozza is saying, the next priority is for the subcommittee-scheduling committee to meet to receive submissions from Mr. Bond on what we should be doing on staffing, to do some interviewing and to make some tentative decisions that could then be reviewed by this committee and taken to the Board of Internal Economy so that we can get it on the road. Time for that should be found, perhaps within the next week. We have a pretty good idea what we are going to be doing. We will, I hope, be allotted a nice chunk of time during Christmas break in which we can get our teeth into this, and we will be prefacing our request for funds with that presumption.

Mr. Warner: When are you going to meet with the chairs on the subcommittee? Do you want to set the date right now?

Mr. Chairman: Yes, one from each party. We can set the date right now for some time in the next week.

Clerk of the Committee: Would you not pick the Wednesday afternoon of next week?

Mr. Chairman: You are suggesting next Wednesday afternoon?

Mr. Warner: Do you know who our member--

Clerk of the Committee: After routine proceedings.

Mr. Chairman: I guess it would be Jim Foulds.

Clerk of the Committee: David McFadden and Ray Haggerty.

Mr. McFadden: Subcommittee?

Clerk of the Committee: After routine proceedings?

Mr. Chairman: And where?

Clerk of the Committee: May I suggest my office? It is room 469. There is a clerks' meeting room there.

Mr. Chairman: Room 469?

Clerk of the Committee: Room 469, main building.

Mr. Chairman: Okay.

Clerk of the Committee: After routine proceedings.

Mr. Chairman: All right.

Clerk of the Committee: We are taking the whole room.

Mr. Chairman: David Bond has prepared a list for us. Does everyone have it, or am I the only one who has it?

Clerk of the Committee: It was given to all members of the committee.

Mr. McFadden: Franco would know.

Clerk of the Committee: I will have extra copies printed.

Mr. Chairman: We have a list of résumés from a number of people who might be suitable for various occupations. David might want to say something about what we should be doing right now about hiring. You said it to him privately.

Mr. Bond: We thought a tax accountant with wide experience with government budget formulation might be helpful to guide us through some of the intricacies of the economic and fiscal review we are going to be considering. An economist with experience in modelling could help us look at some of the general assumptions, which are the most controversial part of this document. They begin at page 42.

Interjection.

Mr. Bond: Yes, that document was tabled on Monday by the Treasurer.

Clerk of the Committee: November 3.

Mr. Chairman: That is the basic document we are going to be working with to see what we want to do with the budget.

Mr. Bond: There are some scenarios in it that they look at, and they explain in depth some of the assumptions they are operating under. We may wish to examine these assumptions, review them and decide whether they are realistic or not. Perhaps we could have someone with a Treasury background who could help guide us through these very complicated areas.

Mr. Chairman: We hope the subcommittee can make some final determinations in that regard and report back, not necessarily next week but possibly next week.

Mr. Bond: Mr. Blenkarn said his committee broke into two panels. The tax panel retained a tax accountant and the other panel probably seconded two economists from the Economic Council of Canada as well as someone from the parliamentary library.

Mr. Chairman: Part of our problem is going to be how permanently we can offer this, in view of our--

Mr. Bond: I suspect it may be a few hours a week in the beginning.

Mr. Chairman: We can get into that more thoroughly at the subcommittee meeting. That will be after routine proceedings next Wednesday.

I am picturing tentatively scheduling a meeting with the Treasurer, who wants to run through this with us, on November 27, we hope, which is three weeks from today. Does that make sense?

Clerk of the Committee: No reason why not.

Mr. Chairman: Is there any other business? You will have a nice long lunch hour again.

The committee recessed at 11:21 a.m.

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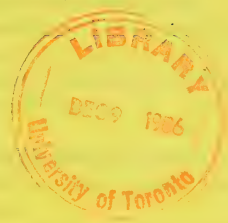
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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

RETAIL SALES TAX AMENDMENT ACT

THURSDAY, NOVEMBER 13, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Miller, F. S. (Muskoka PC) for Miss Stephenson

Clerk: Carrozza, F.

Witnesses:

From the Ontario Trucking Association:

Cope, R. R., Executive Vice-President and General Manager

From the Motor Vehicle Manufacturers' Association:

Clark, N., President

From Canadian Kenworth Co.:

Marwood, M., Vice-President, Sales and Marketing

From the Canadian Truck Trailer Manufacturers' Association:

Mockford, D., Executive Director

From Fiba Canning Inc.:

Canning, H., Vice-President and General Manager

Individual Presentation:

Lambert, P.

From the Ministry of Revenue:

Nixon, Hon. R. F., Treasurer of Ontario and Minister of Economics, Minister of Revenue and acting Chairman of the Management Board of Cabinet
(Brant-Oxford-Norfolk L)

Williams, B., Director, Retail Sales Tax Branch

Russell, T. M., Deputy Minister

Sholtack, G., Senior Solicitor, Legal Services Branch, Oshawa

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 13, 1986

The committee met at 9:07 a.m. in committee room 1.

RETAIL SALES TAX AMENDMENT ACT
(continued)

Consideration of Bill 26, An Act to amend the Retail Sales Tax Act.

Mr. Chairman: We have with us representatives of the Ontario Trucking Association, the Motor Vehicle Manufacturers' Association and the Canadian Truck Trailer Manufacturers Association. The agenda shows that the latter group was to appear at 10:30 this morning. The three groups are here to make a presentation together.

We have Raymond Cope, executive vice-president and general manager of the Ontario Trucking Association; David Bradley, director of economics; Don Mockford, executive director of the Canadian Truck Trailer Manufacturers Association; and Norman Clark, president of the Motor Vehicle Manufacturers' Association. Gentlemen, the floor is yours.

ONTARIO TRUCKING ASSOCIATION, MOTOR VEHICLE MANUFACTURERS' ASSOCIATION,
CANADIAN TRUCK TRAILER MANUFACTURERS ASSOCIATION

Mr. Cope: Good morning. I am Raymond Cope of the Ontario Trucking Association. We come before you this morning as a troika, as the chairman has explained. We from the Ontario Trucking Association are representing the truck purchasers and users, Norman Clark is representing the truck manufacturers and Don Mockford, the trailer manufacturers. We will try to present a comprehensive picture as we see it.

We want to be as brief as we can. To facilitate the presentation, I will direct you to the submission of the Ontario Trucking Association and ask you to turn to page 1, the page following the executive summary page.

The Ontario Trucking Association is concerned with one aspect of Bill 26, and that is the proposal to end the exemption from tax to the purchaser of a truck, truck-tractor, truck-trailer or semi-trailer, beginning with vehicles delivered after December 31, 1986. That exemption has applied to equipment with a gross vehicular mass rating of 11,778 kilograms or more.

At the bottom of page 2 are a couple of charts. I would like you to focus on the 1981-82 period, when this province, this industry and this country went into a recession. There was a downturn in the amount of equipment owned by hired carriers in Ontario. The low point for equipment was 1981 for semi-trailers and 1982 for tractors. In 1983, the exemption from the seven per cent sales tax was brought in. With the upturn in the economy, the exemption helped to stimulate sales. The equipment purchasing has proceeded apace since that time.

The chart on the right indicates the fuel efficiency of trucks. As you can see, the newer equipment and the other schemes employed by the industry have been working towards making equipment more fuel-efficient, with all the benefits that this conveys.

The reasons the truck users want to see the amendment made to Bill 26 are listed on page 3. The first point there is self-evident: It will cause higher equipment costs--seven per cent, to be exact. It will deter investment in new equipment. That paragraph goes on to show that there is now a race to beat the tax implication at the end of the year. Production has been better than normal in the fall. Other speakers will elaborate on that. That comes to an end at the end of the year. New equipment is safer equipment because it is in better shape, and safety is something we always emphasize.

The fuel-efficiency factor chart on page 4 shows that we have a nice trend going, and we would not want to see it turn around. The last point on that page talks about lease agreements. Some of the lease agreements entered into two or three years ago might have five years to run. People entered into agreements on one set of premises and now find that those might be altered during the course of the agreement, with the reimposition of the seven per cent sales tax.

The top of page 4 says the tax "will impose serious financial hardship on independent contractors," meaning owner-operators. Owner-operators finance their equipment by putting as little as 15 per cent down, which is \$15,000 on a \$100,000 truck. When you add seven per cent to that, it brings the total down payment to \$22,000, a 50 per cent increase for the small businessman because that portion of the expense cannot be financed. We think this works counter to any programs that are in effect to stimulate small business.

I now direct your attention to near the bottom of page 5. We have had discussions with the provincial Treasurer (Mr. Nixon) and his staff about the issue as we have seen it. We have made certain recommendations to him, which he has considered but has not accepted, for reasons indicated there: the precedent and the forgone revenue. We think the issue is serious enough to warrant reconsideration.

Going back to the question of the cost to the trucking industry and the ability to pay, we draw your attention to certain trends set out on page 6. The operating ratio is the ratio of expense to revenue. You can see that in the pre-recession period in 1981 it was at 96.2, which I suggest was not adequate even then. In the recession period it fell off to 98 and 97. It is now back at about the 96.4 level, which is getting back to better days. However, you can see that the return on capital in 1981 was 8.3 per cent. That is hardly adequate today.

At the top of page 7, we have to improve the operating ratio to at least 95 to get something like a 10 per cent return on investment. The rest of page 7 points to the things that are impacting adversely on our industry and why the trucking industry has not shown the same kind of return from the depths of the recession that a lot of other industries have shown. The insurance crisis fell particularly hard on the trucking industry. It became difficult to obtain insurance, and then the insurance costs were extremely high.

With respect to fuel taxation, Ontario, to this date, has not benefited from the trend towards lower provincial taxes on fuel, as is the case for many provinces in Canada. There is slower economic growth. We are confronted with deregulation, and we see more competition in that and even greater pressure on operating results.

The industry can see problems with free trade. We refer to the loss of value of operating authority from deregulation measures and business transfer tax that could pose even further problems.

In sum, we feel that the trucking industry has not recovered to the point where it can take, in one fell swoop, the seven per cent sales tax on January 1, 1987.

On page 9 we conclude our presentation with a suggestion that Bill 26 be amended to provide for the reimposition of sales tax on currently exempt trucking equipment in stages over three years as follows: January 1, 1987, to three per cent; January 1, 1988, to five per cent; and January 1, 1989, to seven per cent. We believe that if this recommendation is adopted and if the bill is amended in that particular fashion, it will be a benefit to trucking users. Trucking suppliers will speak for themselves. Beyond that, we see it as beneficial to the economy of Ontario in caring for the kind of recovery that Ontario has enjoyed to date. With that minor amendment, there will not be any revenues foregone, and Ontario will stay on a recovery roll.

I will turn the floor over to Norman Clark of the truck manufacturers.

Mr. Clark: We appreciate being here. Our sole role this morning is to support the OTA in its premise, which Mr. Cope has summarized. We have put forward some written documentation, which is more fulsome than necessary. At your leisure, when you are not watching Mr. Nixon on television, for the next couple of weeks at least, you might read through it. We have included in it a couple of items that will be of direct interest. Perhaps a description of the auto pact and how it works might be useful in your overall consideration of things.

There is a table towards the back that indicates what our production levels have been in the size of units in question right now as to whether the exemption to the tax comes off at one fell swoop or in a staged way.

Attached are descriptions of each of our nine member companies, the names of which are listed on the title page of our submission. Four in particular--Mack Canada Ltd.; Navistar International Corp. Canada, which is the former International Harvester Co.; Paccar of Canada Ltd., which makes Kenworth and Peterbilt trucks; and Western Star Trucks Inc.--produce trucks in Canada of the weight classes in question.

In addition to those companies, both Ford Motor Co. of Canada, Ltd. and General Motors of Canada Ltd. produce such units in the United States and market them in Canada under the terms and conditions of the auto pact, which is why I put the description of it in as well.

I need not go through the importance of the industry. Ontario is aware of the fact that the auto industry has led the economy out of the recession since 1980-82. The statistical report at the back indicates how deeply the sales of heavy-duty trucks had dropped in the 1980-81 period. It parallels almost identically the downturn in vehicles run by the operators. There was a fall-off of something like 60 per cent plus from 1978 through 1981. Mr. Miller, who was good enough to recognize that and put on the exemption, certainly helped.

The difficulty, I know--having talked to Mr. Nixon as well--is coming back from an exemption. How do you do it best? We think the OTA proposal is eminently sensible and we think there are reasons, in our industry as well, for doing something on a staged basis rather than as a one-shot deal. We certainly want the impact of the exemption to come on as quickly as possible whenever government sees fit to do that to stimulate sales; but when it is returning, it is always a difficult problem for politicians and for the industry.

09:20

We should say that a very important component of the motor vehicle manufacturing industry in Ontario and in Canada is that which produces the heavy-duty trucks for the transportation of goods into and away from factories, fields, mines and so on. Although those trucks are not produced in such large numbers as automobiles, the heavy truck producers nevertheless provide significant benefits directly to the Ontario communities in which their production, head offices, regional offices and dealerships are located. In addition, those operations support a large network of suppliers of production machinery, parts and components and financial and other services.

The special products of heavy truck producers and their ubiquitous involvement in the process of bringing goods into the production facilities of all sectors of the economy and in taking finished goods to market was recognized by federal tax policy as well through the exemption from the manufacturers' sales tax for freight-carrying vehicles. Ontario acknowledged that fact as well at a critical point in the recession.

I will skip to the bottom paragraph and suggest that production schedules for the heavy truck manufacturers, for the balance of this calendar year, are high, and this is in response to the government's announced intention to reinstate the tax. Doubtless that situation pulled sales forward from 1987. We believe that a staged reintroduction of the sales tax over a couple of years, with no more than three per cent applying on January 1, 1987, could ameliorate the otherwise more severe contraction, which I would ask Maurice Marwood to describe a little bit better than I can.

Mr. Marwood: I appreciate the opportunity to be here this morning. I would like to make a few remarks on behalf of Canadian Kenworth Co., a division of Paccar of Canada.

As you know, we produce class A trucks in Canada with a very high Canadian content. On the basis of the anticipated reimposition of the sales tax, we expect our employment at that plant to be reduced by about a third during the first quarter of 1987. That is a very significant reduction. In addition to the effect it will have on our plant, there will be a significant ripple effect down through our suppliers, many of which are in Ontario, and beyond that a ripple effect into our dealer organizations, which will have to respond accordingly to the reduction in demand. There is no doubt that this will significantly reduce the general economic level related to this industry, and I think the same effect will be felt with other manufacturers building these vehicles.

There is another factor that is worth noting. As was pointed out by Pay and Norm, a significant number of the people who buy these vehicles are independent entrepreneurial business people who, quite frankly, are not very sound financially in many situations. Nevertheless, they contribute significantly to the viability of this economy, and a seven per cent tax increase, which cannot be financed over the life of the vehicle, will in many cases cause these people to postpone their purchase decisions and continue to operate these vehicles beyond the point at which they would be no longer optimum in terms of fuel economy, safety and operating efficiency.

To summarize, the reimposition of the tax will have a significant detrimental effect not only on the manufacturers but also on the suppliers to those manufacturers and upon the customers who buy these vehicles and make a significant contribution to maintaining the economy in general in Ontario.

I appreciate the opportunity to make these remarks and I would be happy to entertain any questions you might have relating to them. Thank you.

Mr. Mockford: I am Don Mockford, executive director of the Canadian Truck Trailer Manufacturers Association. We are here in support of the Ontario Trucking Association submission and recommendation. The brief I gave you this morning outlines some of the background, so I will not go into that in detail.

One of the significant aspects of the brief is the production analysis that we did at the start of 1986. We started this in 1984 on the basis of historical information from the association. In 1986, we took a look at the production of the industry. It indicated that we were seeing a revival from 1983, when we had a production load of about 3,800 units for our members across Canada. That represents approximately 75 per cent to 80 per cent of the trailer production in Canada. Members in Ontario alone represent about 78 per cent of that production figure; so there is significant production of heavy trailers in Ontario.

In the early part of this year, as I mentioned, we were predicting an increase over the previous year to about 10,300 units, which was approximately a nine to 10 per cent increase, showing the recovery that began in 1984 continuing through 1986. We were looking at that same sort of improvement in production continuing into 1987. Following the budget announcement in May with respect to the reimposition of a sales tax, we were concerned that it was going to create an increase in orders into the last quarter of 1986, which would directly affect the 1987 production. We have seen as a result of this, taking an analysis of our members' results--and this is included in the submission we did for our annual meeting in October--that the increase in our members' production was 43 per cent over the same period, June through August, in 1985.

We are looking at a significant increase in production in the final quarter of 1986, probably about 15 per cent more than we had anticipated, and this increase will come directly out of the 1987 production. People have moved their purchase decisions forward into the latter part of this year so that they can avoid paying the sales tax. There are some people putting off the decision who cannot take advantage of the opportunity to receive delivery because all our members right now have a full order backlog until the end of this year, to fill the orders of people ordering in Ontario.

The impact this is going to have on production will take place in employment in the industry. Back in May, when we first looked at it--and there is no reason to believe there is any change--we believed there would be a 25 to 27 per cent decrease in the direct labour force through layoffs and letting people go. That does not include administrative and support staff. Approximately 1,200 people are employed in the direct labour force and administrative and support staff in Ontario, and we are looking at possibly 400 jobs being lost within the industry as we move into 1987 and see the production decreases we expect at this time.

With the considerations being undertaken by the federal government, there will also be an impact on the total cost of trailers to our customers and to our members' employment situations.

In conclusion, we support the recommendation that Ray Cope of the Ontario Trucking Association has put forward on the phase-in over the three-year period. I am prepared to answer any questions the committee might have on our submission. Thank you very much.

Mr. Chairman: Thank you very much. It sounds fairly unanimous. We have a question from Mr. Ashe.

Mr. Ashe: One of my questions was just answered. I was going to talk about percentages and numbers of jobs. Just to recap and make sure we understand it, most of the 300 to 400 jobs you say will potentially be lost in 1987 are in Ontario. Is that correct?

Mr. Mockford: That is correct.

Mr. Ashe: Are the 1,200 jobs in Canada or only in Ontario?

Mr. Mockford: That is Ontario.

Mr. Ashe: That is just the Ontario component?

Mr. Mockford: Yes.

Mr. Ashe: What is the average life of a large tractor-trailer combination? I appreciate "average" means how fast they go and how long they last, but as an industry, there must be an average life in miles, kilometres or time.

Mr. Mockford: I do not know about the trucks, but as far as the trailers are concerned, we make all our assumptions based on a 10-year average. There are some that are less and some that are more.

Mr. Ashe: I did not think they lasted that long. The life of the cab of a truck traditionally is quite a bit shorter. Is that a fair assumption?

Mr. Marwood: We typically assume, depending on the application and the way it is operated, the useful economic life varies between three years and six to seven years.

09:30

Hon. Mr. Nixon: What is the tax depreciation time?

Mr. Ashe: What is your capital cost allowance?

Mr. Marwood: Normally, they--

Hon. Mr. Nixon: It is 30 per cent.

Mr. Clark: I do not think it is that high.

Mr. Marwood: No.

Hon. Mr. Nixon: Sorry about that.

Mr. Ashe: We do not have any accountants here.

Hon. Mr. Nixon: This may not be knowable.

Mr. Marwood: In many, but not all cases, they try to depreciate it over the financing period for the vehicle.

Hon. Mr. Nixon: I ask because, as farmers, we buy another kind of tractor and depreciate it in a straight-line, simple way. It is not too complicated. We cannot afford the accountants who allow you to depreciate it over the term of the loan.

Mr. Clark: Is that tractor taxable?

Hon. Mr. Nixon: Oh, yes, always taxable. Farmers pay a lot of income tax. Everybody knows that.

Ms. Hart: I have a supplementary. I would like to address my question to Ray Cope. I have acted for a lot of brokers in my time, and it seems to me they depreciated over three years. That is their financing time. Those tractors do not last any longer than three years, given the damage that is being done to them. Is that a fair comment?

Mr. Cope: I cannot recall for sure what I said in my answer the first time around. It is my recollection that it was five, because I know we envy the American trucking companies their new ability to write them off over three years in the United States. I do not think we can do it that fast, because there is a growing feeling that perhaps we should get that ability.

In terms of the useful life, the equipment you are talking about probably averages five years.

Ms. Hart: Having gone to the transport board for years, I find it very hard to believe. Many of the members of your association say: "We have the best equipment. We bought it and it lasts only three years. We keep turning it over," unless they are telling one thing to the transport board and it is another in reality.

Mr. Cope: It is true for some. I guess there is a limit to useful life in terms of mileage. Those running 150,000 kilometres a year over three years, for example, are getting 450,000 kilometres on an engine. That is quite a bit.

Ms. Hart: I appreciate that.

Hon. Mr. Nixon: This might help. The officials have now come to the conclusion that the write-off period averages 3.3 years. That effectively reduces the tax, if it were to be imposed, by about three points.

Mr. Marwood: I would like to elaborate on a couple of points. It is important to differentiate between "useful economic life" and "useful actual life." In many cases, people operate a vehicle beyond the point of "useful economic life" merely because they cannot afford to replace it for reasons of down payment, financing or cash flow, or other reasons. Many of our products on the highway have been there for 10 or 12 years. They are well beyond their "useful economic life," but they are still hauling goods up and down the highway. We must distinguish between "useful practical life" and "useful economic life."

Mr. F. S. Miller: On that point, is the current fleet of heavy trucks on the highway, on average, beyond a normal economic life point? There was a real drop in sales three or four years ago and, as a result, the fleets were being cannibalized.

Mr. Marwood: It is difficult to speculate on that, but it would seem to me that they must be because it is resulting in the current surge in demand to replace those vehicles before the imposition of the tax.

Mr. F. S. Miller: May I ask the Treasurer a question, although he is here as Minister of Revenue? Why is this tax being put on?

Hon. Mr. Nixon: We are the only jurisdiction, except Alberta, that does not have a tax. The revenue, believe it or not, is necessary to pay for the programs for the whole province. Although we do not earmark programs, it is essentially to maintain our highways.

With our sales tax agreement among the provinces, the other jurisdictions impose taxes. It is done on a prorated mileage basis on the payment of taxes, and we feel we ought to have this revenue to maintain our service to the transportation industry and the travelling public.

Mr. F. S. Miller: You would agree that your revenues have exceeded your expectations this year?

Hon. Mr. Nixon: They did last year too.

Mr. F. S. Miller: Yes. Good planning--

Hon. Mr. Nixon: The last time it was downhill was two years ago.

Mr. F. S. Miller: Yes.

Mr. Chairman: Do you have any other questions for the witnesses?

Mr. F. S. Miller: I do. That was my first question, which was to lead into a second one. Do you consider a heavy truck a piece of machinery?

Hon. Mr. Nixon: Trucks have historically been subject to sales tax in Canada and in this jurisdiction. The justification for removal was certainly adequate. I am not prepared to be as enthusiastic as some others are, including yourself, that it triggered the huge resurgence in sales, which doubled from 6,000 units at the low point to 12,000 units within two or two and a half years. We consider them taxable items, just like cars and railway locomotives and anything else. I do not consider them manufacturing equipment.

Mr. F. S. Miller: That brings in an interesting point. The question of the applicability of the sales tax to machinery has been one of the most contentious issues in the Ministry of Revenue and the Ministry of Treasury and Economics for years.

Hon. Mr. Nixon: It has gone back and forth several times, I recall.

Mr. F. S. Miller: Yes. I think I have heard you argue the other side.

Mr. Ashe: Things change.

Mr. F. S. Miller: The point I am trying to make is that the set of problems which led to the reduction of the sales tax on heavy trucks, as I recall it, still pertains in our country. That is why we need to look at it in terms of its economic impact, which surely is your major task as the Treasurer and Minister of Economics in setting the Minister of Revenue's tax policy. Is it not?

Hon. Mr. Nixon: I cannot agree with both sides of your question, because I do not believe the situation that led to the removal of the tax pertains today. The profits in the industry are at a 15-year to 20-year high, according to the most recent figures we have. Employment is high. There are many things happening. The gentlemen have made it clear they do not like the level of tax on diesel fuel. They are interested in the effects of deregulation. They are concerned with a business transfer tax being considered in another jurisdiction. I do not agree that the conditions which led you to remove the tax pertain today. I disagree entirely.

Mr. F. S. Miller: You are presuming that the conditions which led me to remove it related to jobs in the Ontario economy and low sales in the industry.

Hon. Mr. Nixon: You wanted to remove it as a means of production?

Mr. F. S. Miller: No. Those were benefits which flowed from it at the time. Undoubtedly, there were major problems in the fleets. I think we agreed with that.

Hon. Mr. Nixon: Sure. As I recall, that was the justification in your budget.

Mr. F. S. Miller: No. It was much deeper than that. Budgets, as you know, do not go into all the justifications. This was the result of perhaps five years of discussion with the industry, not one. It pertained to the point I was trying to make. At one point, if a tow motor truck functions within a factory, moving a product from A to B, it was taxable. Your deputy will tell you that. If a conveyor belt moved a product from A to B in a factory, it was taxable. If a component of a machine did not directly change or alter the shape of a product--a computer attached to a machine, etc.--we had many Ministry of Revenue disputes about whether that component was or was not taxable. I think you will find all of these are historically accurate.

Hon. Mr. Nixon: Those discussions continue.

Mr. F. S. Miller: I took, as you do, I am sure, a weighted average of how frequently a certain irritation popped up within the ministry, the government and the industries affected by our actions. In fact, what we were doing in many cases was causing great pressure on the Ministry of Revenue at the industrial level for interpretation and great confusion at the industry level in terms of when tax applied and when it did not. On average, my recollection is that half the machinery attracted tax and half of it did not. We went through some years of discussion. We finally concluded that equipment which moved products from A to B should not attract tax.

Hon. Mr. Nixon: Why did you leave it on locomotives and train cars?

Mr. F. S. Miller: Probably by omission rather than by design. It is as simple as that. Not everybody finds every loophole the first time around.

09:40

Hon. Mr. Nixon: No, but you are talking about a five-year review of this on a more or less philosophical basis.

Mr. F. S. Miller: No, I did it in my last year. I learned very quickly that I do miss things; you do too.

Hon. Mr. Nixon: I certainly do. I am not going to miss this one, if I can help it.

Mr. F. S. Miller: This is quite critical to the issue because the principle has to be that in the main trucks are hauling goods from point A to point B, intercompany rather than intracompany. In a country such as ours where distances are much greater than in the competitive nation to the south, we have to maintain the lowest possible movement costs to protect jobs and to keep our industries economically viable.

This was a step that had secondary effects on job creation, but admittedly, not many heavy truck components are made in Canada in sum total. The jobs are critical and important, but not as in light trucks, which are built here. The issue should rest more on the principle that we are trying to reduce the cost of transportation in general and the cost of produced goods in this country by giving a benefit that we give to all other people who have intracompany transportation requirements.

That principle finally persuaded me that heavy trucks should have the sales tax removed and that we should benefit the people in the north. By slightly reducing the cost of transport, we should benefit the remote areas.

That was all part of it, but the primary one was whether it was consistent with the moves related to machinery taxes that we made in Treasury and the Ministry of Revenue at the time. A heavy truck is a machine and in the main it is performing the same function as other machines in a factory. That was what was argued.

Mr. Clark: That does not need any addition, but I might say that throughout its life our association has wrestled with the problems Mr. Miller has spoken about. We have done so on a federal basis as well, as you can well imagine. We have tried to determine what should apply in the way of federal sales tax and what should not.

I am sure you are aware that the freight-carrying truck is exempt on the basis Mr. Miller described. In construction, it took a long while, but just in the past few years we have arrived at a stage where the federal government has recognized that a truck used in the construction industry is eligible for the five per cent rather than the 12 per cent rate of sales tax.

Hon. Mr. Nixon: I accept that Mr. Miller arrived at this after a careful philosophical review of alternatives, but he did not remove the tax from the smaller vans and trucks that are involved in commerce and probably employ many more people than does heavy industry. I do not want to indicate for a moment that I reject Mr. Miller's contention; I do not agree with it.

My thought when that happened was that the business was in serious free-fall decline and that it was prudent, after listening to the representatives from the industry and everybody else, to take off the tax for a reasonable time to assist the industry in finding its feet again.

The lifting of the tax would have helped, but Mr. Miller knows as well as I do, since he had a good deal to do with it, that the economy of Ontario found itself again and in 1984 began to move forward rapidly. It has done so since. The trucking business has recovered substantially and its production and sales have more than doubled. The number of people employed is at an all-time high level and the economy of the province is buoyant.

It may be ethically argued that the taxes should be removed in order to make the trucking distance from A to B as low as possible, but if that were acceptable economically and otherwise, then it would have to be across the board for trucks, trains and everything else.

We, on the other hand, feel the trucking industry has to pay its share--it probably feels it pays far more than its share--as judged elsewhere for the maintenance of a road system. For northern Ontario, we think it is even more important that we have the wherewithal to build and improve roads, the same as in southern Ontario. This is an important source of revenue.

I hasten to say again we do not earmark revenue, but this is a legitimate source of revenue, particularly since all other provinces tax it, except Alberta, which has no sales tax.

Mr. Ashe: Those were long supplementaries. Back to the drawing board. I am sure the Treasurer is pondering that there should be no sales tax reimposed. It is unusual in some circumstances to see three organizations come in with the same position, in this case, the phase-in over 1987-88 with the full imposition in 1989. Was that just luck, in the sense that you all came in with the same idea at the same time? Was it reached after much head-bashing and ramming and banging, or was it a straight case of business people sitting down and saying, "Hey, we have to come up with a rational position that we all agree with?"

Mr. Cope: It was probably the last of those three reasons. We recognized at the outset it would be difficult for us to present a convincing argument for not ever reimposing the seven per cent sales tax on this equipment, but that there was sufficient reason to believe an amendment to the proposal to reinstate it in stages would have advantages to our industry and to the economy as a whole. We felt that approach would persuade itself to the Legislature and to the government.

Mr. Ashe: Were you ever afforded the opportunity of a face-to-face presentation with the Treasurer in his budget deliberations or following his budget deliberations? I know you had correspondence, but was there any face-to-face discussion?

Mr. Cope: The Ontario Trucking Association met separately with him in the fall of 1985 and then again on July 2, I believe. The three associations met face to face with him and put our case to him at that time. He thought about it for a couple of weeks and then wrote to tell us that, on balance, he felt he was not convinced by the arguments.

Mr. Ashe: Was he not convinced, or was it just too unwieldy and awkward to have a different sales tax from that on most commodities?

Mr. Cope: There were probably three aspects to his consideration. One was the forgone revenue. It was his estimation that the reimposition in stages would mean a loss in revenues to the government of Ontario. It is his view; I do not have to share it. He felt it would set an awkward precedent and that if we did it in this case, we might have to face the same kind of approach by others on other occasions. He drew attention to the fact that there were some kinds of administrative difficulties in going at in this way.

Mr. Ashe: I am sure you have done some of this analysis and probably pointed it out to the Treasurer in your meeting. Were you able to substantiate

in any valid way that three per cent on projected sales next year would probably generate the same or more money than seven per cent on a much lower number? Were you able to put any substance to that proposition?

Mr. Cope: Not sufficiently. We would have liked to have had a macroeconomic model on the computer, punched in the numbers and been able to come out and say: "Here, Treasurer, instead of costing you this amount of millions, it is going to save you this amount of millions. It will be much more beneficial to the province."

We were not able to do that on that kind of basis, but certainly in the imagination of the people who are familiar with the industries, it would have that positive effect.

Mr. Clark: We think the ministry has probably looked at it.

Mr. Ashe: I am sure it has.

Hon. Mr. Nixon: You are saying we have the data based on what the revenue effect would be in phasing as opposed to one shot?

Mr. Clark: I was hoping.

Hon. Mr. Nixon: It is not available to me.

Mr. Clark: We have not done it either. The Motor Vehicles Manufacturers' Association tried to concentrate on the production levels in jobs. The way it looks to us is that with bringing things forward, probably from the first part of 1987, to get in under the wire of the seven per cent, there will be a little bit of a trough. How big that will be we do not know. That is where the revenue dip could be generated too. I am afraid we do not have those figures.

Mr. Ashe: Did the Treasurer point out to you there are at least two other things that come to mind that are different factors. In one instance, it is phasing in; in the other, it is a different factor from the straight seven per cent. For example, the accommodation tax is five per cent, as you know, not seven per cent and not zero, which it was. When it was reimposed, it was reimposed at five per cent.

09:50

The other one that comes to mind is that about a year and a half ago, during a certain election campaign, it was promised that the sales tax on fast foods--we will use that expression; it is a little broader than that--would immediately go to a \$4 exemption. We have had a \$1 exemption in one year and will have a \$2 exemption some time in the future, if we ever get a bill passed.

Hon. Mr. Nixon: You are quite bitterly criticizing that.

Mr. Ashe: Perhaps, eventually, two more years from now, we will get the \$4 exemption. In my view, it may be little different to the rate, but that is phasing in. The precedent is there. Frankly, I think your proposal is rational and reasonable. I hope the Treasurer will put on his thinking cap and give it valid consideration and approval.

Mr. Clark: Is applause allowed?

Mr. Chairman: Do you have a comment, Mr. Marwood?

Mr. Marwood: I just want to make a remark concerning the possible number of people affected, the employment levels. I think I heard some numbers--400 or 1,200. At our plant alone, we anticipate 200. We are not, by far, the biggest. The ripple effect I mentioned earlier could easily be 10 to one, in my opinion, within our own suppliers and dealers. I think the number of people we are looking at as being affected by this is far greater than the numbers I heard earlier in the discussion. Then the lost revenue associated with that loss of employment certainly cannot be--

Mr. Ashe: Lost income tax, lost buying power, etc., represents the real ripple effect. Thank you.

Mr. Clark: What Mr. Marwood has said comes back to Ms. Hart's comment about how you replace vehicles, how old they are and so on. Part of the reason for a turnover, from a large fleet point of view, would be that their records show what the economic life of a machine is. At that point, they are going to make that decision. You might get a couple of answers on that.

Again, it would seem that if someone is looking at a large increase in the price as a result of a one-shot seven per cent imposition that is not able to be financed, it probably will have some effect on how many more years some of the vehicles already on the road that perhaps should be either repaired in a major way or removed from the road will be run. I know Mr. Cope has mentioned that in the past, but it all comes around again to that cycle of costs.

In determining how we came together as a group, I am sure every industry that appeared before your committee is saying the same thing. In world competitiveness, etc., cost reduction is absolutely essential. To my way of thinking, that is productivity increased. There is no other way you can go except to cut costs. The same goes for a truck operator as for a vehicle manufacturer.

As a motor vehicle manufacturing industry, while we are riding a crest right now, we know we have been lucky to have it extend this far through from the last recession. The dip could probably come any time in the next couple of years, I think. God forbid it should be earlier rather than late because there is an awful lot of plant replacement going on. We have seen shutdowns in the United States. We are hoping that not much more happens up here, but the line may not be able to be held in Canada. We are enjoying things much to our benefit right now. With Mr. Reisman and so on, you get into those great, huge exercises and they come right back down to the cost of operating a truck on a single owner-operator basis.

Mr. McFadden: With respect to employment loss as a result of the imposition of this tax, Mr. Mockford, you have suggested 300 in your industry. Mr. Marwood, you have suggested something in the order of potentially 200 in your company. That comes to 500. I take it those are not the only job losses expected. Is there an estimate on what you expect the job loss to be in the next year or so as a result of the imposition of the sales tax in total?

Mr. Clark: No, we do not have one in the MVMA. We know the little dip we see, however deep that might be, can be filled back in to some degree at least. But I am sorry, those degrees have not been measured.

Mr. McFadden: So it is in the hundreds. It could even be into the thousands. Is that what you are suggesting?

Mr. Clark: It could be.

Mr. Marwood: If I may apply a rule of thumb, it is assumed, at least in some circles, that if you add a productive job, in effect you create 10 new jobs down through society and the community. Therefore, it is safe to assume that if you remove a productive job, ultimately, sooner or later, you will probably remove 10 related jobs in terms of support functions, supplier functions and that sort of thing.

If you take the number we know today of 200 out of our factory during the first quarter, the ripple effect on that throughout our suppliers and the related suppliers to those suppliers, etc., can easily be 10 times that. As I said earlier, we are not the largest company in this affected industry by far. I think, definitely, we are looking in the thousands of jobs ultimately affected over a period of several months during 1987.

Mr. McFadden: The final item I want to ask about is that if the Treasurer and the Legislature were to adopt your suggestion and the suggestion of the trucking association to phase this sales tax in, what effect would that have in the next year?

I have already heard that a whole lot of companies, as I understand it, put in their orders so that they would get all their trucks by the end of this year. Those orders are already in. No matter what we do, will next year be a bit of a down year anyway because everybody has assumed this tax is coming and the orders have already gone in? I am curious to know what effect your recommendation will have? I have a feeling that some of the damage has already been done, no matter what we do. If we go with your recommendation, what positive effect would that have on employment?

Mr. Mockford: From our association's point of view, there will probably be some job loss, as you are indicating, because the effect is already there. What it would do is stop the people putting off that purchase decision to 1987 or later, who are saying, "We cannot afford to spend that money during 1986." Therefore, we are estimating a production decline, but the loss of jobs would not be as drastic as it normally would have been.

Mr. Clark: We would echo that. Again, we do not have numbers. Just for some sense of it, though, the number of hourly rated jobs that we have in our four companies in Canada which manufacture these trucks that are currently exempt amount to about 2,240. The salaried group is about 800 in those four companies, for a total of 3,100 jobs. Not all of them, of course, are at risk and we are hopeful that sales will be maintained.

Our thought is that to the extent that sales have been pulled forward, from how far away have they been pulled forward? We think there may be some people who are just saying "To heck with it" for a year. If we could shorten that period to six months even, we think 1987 could start to look better. It may be that the first quarter next year will still be a dip in terms of employment and activity, but perhaps the second quarter is going to be better than it would otherwise have been and perhaps the third and fourth will be pretty much normal.

Mr. Haggerty: Has anybody from the ministry given consideration, for example, to the number of municipalities that will be purchasing fire equipment? That is a pretty expensive item today. The average fire vehicle will be about \$175,000 to \$250,000. If they order now, will they be exempt from this tax increase?

Hon. Mr. Nixon: It is exempt anyway.

Mr. Haggerty: Are they? I did not think they were. Are all municipal fire trucks exempt then?

Hon. Mr. Nixon: No. Fire equipment is.

Mr. Haggerty: Fire equipment is? I did not think it was, in some cases.

Hon. Mr. Nixon: Frank put the tax back on for transporting--

Mr. Haggerty: Perhaps I was thinking about the apparel for firemen.

Has any consideration been given by the ministry or has it done any studies in this area in regard to deregulation? A couple of years ago, I believe--the member for Muskoka (Mr. F. S. Miller) was Treasurer at that time--I gave a speech in the House that indicated that the study done by the trucking association in Canada showed that some 5,000 jobs would be lost when complete deregulation comes into effect very shortly.

Hon. Mr. Nixon: Deregulation?

Mr. Haggerty: That is right.

Hon. Mr. Nixon: As I recall that study, I think it might have meant there were 5,000 jobs transferred from some of the major lines to some of the smaller operators.

Mr. Haggerty: To the American industry, yes.

Has the Ministry of Revenue staff made any consideration in this area with regard to the reintroduction of the seven per cent sales tax? What effect will it have in loss of jobs in Canada if this comes up, particularly in Ontario?

10:00

Hon. Mr. Nixon: We consider that over a reasonable period the increase in productivity during these months, as the industry accelerates its sales because the tax may be coming on, will be balanced by a trough in production, as was indicated, because if people are going to speed up, there is going to be a time when the sales will be down.

Normally, governments like to change these taxes the night of the announcement. For obvious reasons, that is not an alternative that is readily available to us. We have to do it in this more democratic way, something that did not bother our predecessors to the same extent, and have hearings about these changes.

Therefore, we could not make the cutoff as quickly as that, but there is ample warning. For example, municipalities or businesses that want to beat the tax, so to speak, have had ample opportunity to do so. The gentlemen representing the industry must be aware this has been of some benefit to them, just as the large decrease of 10 per cent or more in the cost of diesel fuel has been a substantial support for the trucking industry. We all agree that the diesel tax is high; some people think it is too high. People think sales tax is too high whenever it is applied, but governments have to make rather tough decisions to maintain revenues and then apply them in a fair and equitable way to build roads, to have weigh scales, and for Ministry of Transportation and Communications people to examine safety.

To say that the reimposition of a seven per cent sales tax in January will mean that our truck fleet becomes unsafe is an interesting comment, but one that is not that impressive. I am not totally impressed with the factors given by the gentlemen about the employment situation. The employment situation in general will depend on the buoyancy of the province, which is substantial at this time. People are manufacturing more because of the world prices of oil, the relative value of the Canadian dollar and all sorts of variables. They have come together to give us an amazing economic buoyancy in this province. The trucking industry has shared in this and will continue to do so. It is our judgement the tax should be imposed, and we are asking the committee and the Legislature to support that.

The phasing stuff is certainly a legitimate alternative. The gentleman who answered the question a moment ago gave the reasons for my not accepting the phasing at this time better than I could. The reasons are not conclusive. We are concerned about the revenue, that it is confusing to the people selling and that it is an additional difficulty. It is true that you pay a higher per cent of sales tax on booze than you do on normal items. You pay a lower per cent on hotel accommodation or something such as that than you do on normal items. For us to set up a special category for heavy trucks is not warranted, in my judgement. The arguments are being put and readily received in this committee. We have to listen to that; that is what we are here for.

Mr. F. S. Miller: I am trying to argue it on a different point. I do not even accept that it should be phased in. I think the industry has made a fatal error. It has assumed that if it was reasonable, you would be.

I have to look at my friend Mr. Philip and his party, I have to look at the Treasurer and I have to look at the cities. You live in Brantford. Surely you are aware of the demands you made on me for Hamilton steel, the demands that government should do things to create jobs and cut costs in this province when things were tough. When things are good, I see us sitting here and saying: "We can do without 2,000 jobs. It does not really matter whether they hammer Brantford."

Hon. Mr. Nixon: That 2,000 is only one small part of the industry. Do not minimize it.

Mr. F. S. Miller: All right. "It does not really matter if we do not need more Canadian steel, we can afford it because things are buoyant these days." That argument does not worry about those economics.

I argue that when the downturn occurs, as it will without doubt, you people will be under tremendous attack.

Hon. Mr. Nixon: Just like you were.

Mr. F. S. Miller: Certainly, and I took those measures.

The point I am trying to make is that when things are good, you cannot afford to cut off the jobs we would have given millions of dollars to. Look at the help we gave to Massey-Ferguson to try to help your city out in the depths of the recession. We lost \$78 million on that, as you will recall--you are Treasurer--in an attempt to keep people at work in one single community. That is what it all gets down to: jobs and the cost of transportation.

It is so easy to be like a general before the battle and say: "I can afford to lose so many troops. Let us make these economic changes." When the rest of the economy starts to tumble--and your forecasters are telling you it is starting to; next year will not be bad, but they are looking beyond that; I know they gave you the five-year forecast--then you will do anything. You will give grants away, you will entice industries, you will do everything to re-establish those who pass the economic bare minimum and have to close. We did this not to stimulate sales in the short run, but to make sure we cut down the cost of one of Canada's most vulnerable industries, transportation.

Hon. Mr. Nixon: That sounds like the general after the battle describing his actions.

Mr. F. S. Miller: I listened carefully, and those are the points I am trying to make. That is where you need to sit on this. I hope my party will vote against it. I hope the New Democratic Party will vote against it. I think you should vote against it yourself. One of the greatest advantages you have is that you do not have a vote of confidence over your head.

Hon. Mr. Nixon: Do you want to bring one forward?

Mr. F. S. Miller: You should lose your job on the basis of this piece of legislation. Every former Treasurer in the world did. I surely sat in a minority government with tax bills that were not very popular and I knew my job and my government's life were on the line. You do not have that worry, so you can save face.

Hon. Mr. Nixon: We prefer democracy.

Mr. F. S. Miller: That is not democracy in the British system.

Hon. Mr. Nixon: Sure it is.

Mr. F. S. Miller: Those are the rules right now. Let us go with them. Let us admit that your primary job is to create jobs in this province and cut costs to citizens. This tax is counterproductive to both those things.

Mr. Mackenzie: First, I want to say to Mr. Miller that I appreciate the seemingly direct pitch he made to me here. I want him to know, however, that I have only been here for 11 years and not the length of time he has been here. My name is Mackenzie, not Philip. That is about as much knowledge or attention as we had in the four years you had the majority.

Mr. F. S. Miller: Do not mind me. My wife introduces herself each weekend. I blush.

Mr. Mackenzie: I have two quick questions, one to the Treasurer. What is the revenue?

Hon. Mr. Nixon: It is \$65 million annualized. I am now informed if we go with the three per cent phase, we would forgo approximately half of that in the first year. Instead of \$65 million we would expect about \$30 million. No, the loss would be \$30 million, so it would be about \$35 million, which is a bit better than that. The loss on the second year of phasing would be about \$20 million.

Mr. Mackenzie: The second question is to Mr. Mockford. We have argued from time to time on the job effect and the ripple effect. In all the arguments I have used since I have been here, I have never used a 10-1 ratio. I am wondering where you get that. The most I have ever been able to identify fairly clearly in most industries is 3-1 or 4-1 at best.

Mr. Mockford: The chamber of commerce.

Mr. Mackenzie: I would not give it much credence.

Mr. Chairman: Thank you very much for your presentation. We appreciate your having put it together jointly. It assists us. We have had a very good, free-wheeling discussion about the issue. We appreciate your input.

Mr. Cope: We in turn thank the committee for receiving us and giving us this much time.

10:10

Mr. Chairman: We now have Hugh Canning, vice-president and general manager of Fiba Canning Inc. Will you have a seat? Do you have a formal presentation that the members of the committee can follow while you talk to us?

Mr. Canning: Yes. I must apologize. This is being recreated this morning. I am a little embarrassed about that. I am a small businessman. I have been out of town. I returned late last evening and found that the documents I should have here this morning are in New York. I am going to be there tomorrow for a presentation. I ask your indulgence.

Mr. Chairman: That is fine. Have a seat. That is quite understandable, especially as a small businessman is sometimes less able to prepare for things of this nature than large businesses.

Mr. Canning: I see the prestigious group in front of me. I did not have an awareness of the size of this committee, quite frankly. I thought it would be very small. I did not expect the Treasurer, for example, to be here. Notwithstanding that, I am very honoured to be here.

You will see our brief on the right-hand side of the folder that is being distributed to you. This was recreated this morning and the five Xeroxed pages were just finished at 9 o'clock this morning.

Mr. Chairman: Perhaps if you will lead us through your presentation, that will assist us.

FIBA CANNING INC.

Mr. Canning: Just to give you a little background, I am here this morning for the alternative fuel business. Our company is involved in this business. Hearing the former Premier and these gentlemen I work with in the industry, I will have to be very careful how I address certain remarks I make.

Making the assumption that the tax will be going on the buses, staying on buses, as an example, and going on heavy trucks, I have crafted these remarks in that way. We are an Ontario company, located in the city of Scarborough, manufacturing and distributing natural gas equipment, specifically for the transportation industry.

When the previous government, the Conservative government, brought out this policy of alternative fuels and the tax exemption for them, our company became very interested in specifically targeting larger vehicles, such as buses and heavy trucks, where the fuel consumption is the highest and the pollution emissions are the worst, in the transport industry.

We submit that the Ontario government should give priority to replacing oil in this segment of the transportation industry, simply because there is a bigger bang for the buck in both economic and environmental benefits. As an example of what I mean, the average life cycle of a car in Ontario is seven years. A Toronto Transit Commission bus enjoys a 20-year life cycle. A TTC bus will use more oil in one year than a family car will use in its entire life cycle.

Correspondingly, the TTC bus emission in one year far exceeds the family car emissions, even in 20 years of operation. I point this out to illustrate the pollution problem caused by diesel buses. The energy consumption by these vehicles is enormous. The goal of the Ontario government is to replace oil in the transportation sector with clean-burning natural gas. Obviously it would have its biggest bang for the buck in the larger vehicles with longer life cycles.

When the Ontario government initiated its alternative fuel program, our company invested very heavily in technology, specifically for heavy vehicles. We have developed this equipment to the state of the art, and it is ready for the market now. With the sales tax used as an instrument by the government to encourage substitution for oil, our company is on the threshold of launching a major program to convert vehicles, not only in Ontario but also throughout the rest of Canada and, indeed, in North America.

Again, to give an illustration of how this will be accomplished, the manufacturer here, Ontario Bus Industries, has started on its first natural gas bus designed and destined for the city of Mississauga. This bus will be in service in early 1987. The program is supported and financed by the Ontario government through the Ministry of Energy, the Ministry of Transportation and Communications, Mississauga, Ontario Bus Industries, Consumers' Gas and our company. We are all sharing in the cost of this program.

Tomorrow I am making a presentation in the city of New York and expect a committee from that city to purchase two buses from Ontario Bus Industries. The buses are going to operate on natural gas. The business is coming directly through the Environmental Protection Agency office in New York, which is mandating to that city that the air quality has to be improved.

The two main utilities in New York, Brooklyn Union Gas and Consolidated Edison of Manhattan, are financially supporting this program. It is expected that the state of New York will be supporting it financially as well. There may be as many as six buses from Ontario going in there. Again, the supplier will be Ontario Bus Industries in Mississauga. We will supply the hardware for the natural gas.

Here we have an Ontario bus manufacturer gaining this export business in

a neighbouring US state. Referring to the previous group, this will create jobs for Ontarians. The natural gas influence on each vehicle will create a minimum of 200 additional man-hours for workers in Ontario.

The truck business will come eventually, and even ships are potential markets for natural gas substitution. We are also working on a program with Bombardier in Montreal for locomotives using natural gas. One should be operating in 1987. Again, we must not lose sight of perhaps the most important factor in substituting gas for oil, the environmental benefits that come from these efforts.

In the papers I have enclosed for you to read at your leisure, the cleanliness of vehicles using natural gas is identified. For that reason alone, using the retail sales tax instrument to subsidize the cost of natural gas equipment for these vehicles will have a dramatic impact on the air quality of our community.

As I have described, we have the technology available now to go to the marketplace. At this point, there are no vehicles of any significance using natural gas in mass transit or the heavy truck industry. We need the Ontario government intervention to proceed with this program. If we do not receive the sales tax assistance, we will simply be out of business.

To reinforce that statement, I would like to point out to you the countries in the world that are developing natural gas equipment to replace oil for transportation, such as Brazil, where the government policy is to replace all the buses in Brazil on to natural gas in a seven-year program.

Mexico City is going to put natural gas on 8,500 buses, the whole fleet down there, for one reason: They are broke, but they are losing tourist business. Studies in the US have shown that tourist travel has dropped 30 per cent, specifically to Mexico City, because of the environmental conditions. It is the most polluted city in the world. It has approximately 17 million people. They want to put all the buses on natural gas, and there is no other reason. They do not have any money, but they are looking for world-backed financing firms.

In Russia, there is a five-year program to put two million vehicles on natural gas in Moscow, basically for the same reasons. New Zealand has 100,000 vehicles in place. Italy has 350,000. The point I want to make is that all these countries that are taking this initiative are doing it only through government intervention. In all these countries, there is no business unless the government is involved.

I would like to outline what assistance, specifically, we require for this segment of the market. The cost of the equipment to put on a TTC bus in Ontario is approximately \$15,000. If that bus is tax exempt, it largely wipes out the premium cost for natural gas. To correct that market, we simply have to have that assistance.

I can say to you this morning that with the sales tax exemption, we have a go situation to mount an effective campaign to use natural gas in place of oil in these heavy buses and trucks that use such an enormous amount of energy and are the worst polluters in the vehicle industry in North America. I am suggesting that the increased jobs in our province directly associated with the vehicles and also the infrastructure in manufacturing, etc., would more than offset the tax revenue the province would forfeit.

I would like to inform you that this would be an evolution, not a

revolution. It would take a 25-year or 30-year span, much like the diesel engine replacing the gasoline engine in this industry. In trucks, it took 50 years. We do not see it changing with natural gas. What is happening in space heating will happen in the transportation industry. It is a matter of time, but the payback is very quick.

10:20

Ontario is a leader in this technology largely through the legislation of the former government, which recognized this need for our province. The most significant influence of any provincial government in Canada has been Ontario's. The Ontario government has the most enlightened approach to this. The fact is that we are developing this in our province and creating these jobs.

Our company at this time is installing two large stations in Colombia, South America, to use natural gas in 800 buses down there. Again, it is a case of pollution and economics. They have natural gas and no markets, so they are going to use it in their buses. These buses are very small buses. They are more like our school buses than TTC buses, but it is a significant venture. They are doing that job with a crown corporation in Quebec called SOQUIP.

The city of Bangkok, Thailand is looking at purchasing 200 buses through Ontario Bus Industries. We are competing with United Kingdom bus manufacturers. We have a good opportunity there. They claim they are going to put those on natural gas.

In conclusion, I would like to make the point that the \$1,000 cap on the tax exemption for this type of vehicle will not cut the mustard. When you are looking at a vehicle in the neighbourhood of \$200,000, for example, a TTC bus, \$1,000 does not have a significant financial impact. It will not do it. We need the full tax exemption of the vehicle or we are out of business. I want you to understand that natural gas meets all the criteria the Ontario government is looking for in its alternative fuels program. In supply no other fuel comes close to matching the availability and reserves of natural gas.

The fuel is safer than gasoline. There is no other fuel that is cleaner than natural gas, and with the emission control equipment available, the emissions are totally harmless to the environment. That technology is not available for diesel fuel, at this time anyway, and it may never be. Finally, it is the lowest-cost fuel that we can use in these vehicles.

I appreciate the opportunity for this presentation. I will be glad to answer any questions you have.

Mr. McFadden: How many companies are doing what you now do in Ontario? Is your company, the group you are working with, the only one or are there other groups in competition with you?

Mr. Canning: In the heavy end of the business, we are the only company. There are a number in the light-duty end of the business: cars, light vans and that sort of thing. In Metropolitan Toronto, I believe there are 20 facilities in the business of converting vehicles to use natural gas as a fuel, all light-duty.

Mr. McFadden: I am trying to figure out the amount of tax this would actually generate, if the tax were put on the vehicles you sell. I am curious to know what tax revenue would be generated as a result of this. Have you any estimate on that? Perhaps the Treasury has that figure.

Mr. Canning: The TTC now is taxed, but it is somewhat like moving it from one pocket to another. In buses, I believe, 75 per cent of the funding comes from the province, but a TTC bus today costs \$180,000. It is assessed at seven per cent tax.

Mr. McFadden: As I understand it, you are hoping to develop an international market. Do you have an international market now for your products?

Mr. Canning: Yes. They are all government supported. We have international business with the city of Mexico; New York City; Atlanta, Georgia; a city in Kansas; the city of Los Angeles; Mexico City; and Pangkok, Thailand. That is an example of where we are working on this technology, in the heavy end of the business.

To give you the background, this was a very enlightened tax situation that Mr. Miller put forward in the alternative fuels program; so we looked at it. Logically, the evolution of fuels is in the heavy end of the market; it is not in the light end, normally. As an example, the first diesels in Canada were locomotives and buses for obvious reasons--the cost, the enormous amount of fuel they consume.

At this point, energy is no problem and we do not see there ever being a shortage of oil indefinitely because we can make it from all sorts of things; it is just a matter of cost. What I am trying to impress on the committee this morning is the opportunity for the environmental health of our province. In Mexico City, to use an example, it is strictly for tourist dollars in that case. The pollution is unacceptable and they are doing it even though they do not have the dollars because the return on investment is there. It is a very significant thing.

The Environmental Protection Agency in the United States has not cracked down as fast as it would like to because you have to have an alternative to what is available and you have to give industry time to respond. Recognizing what Mr. Miller brought forth a few years ago, we invested in this equipment. It was not available in the world. We spent five years in doing this. Now we have it ready and we hope we have a market.

Mr. McFadden: What effect do you think this will have on your market? Do you have any estimate of the impact this would have on your company, or number of employees or future development of this kind of technology?

Mr. Canning: It will have a significant impact on job creation. At this point, we import most of the equipment and then fix it to the vehicle. What we will be doing is manufacturing in Ontario. We are very pleased that Ontario Bus Industries Inc. recognizes this same opportunity and has done the engineering to use natural gas as the prime mover of the vehicle. I do not have the numbers, but I can tell you right today that putting natural gas on one bus--just putting on the equipment--represents 200 man-hours that we can look for in job creation.

Mr. McFadden: Do other countries treat this kind of thing in a similar way? Are you familiar with how your competitors would be treated?

Mr. Canning: I know the industry throughout the world quite well. Competition in Russia is Italy. The Italians have been involved in natural gas

before but we have passed them. We have better technology. The Russians acknowledge this, and we expect to get major orders out of Russia in the heavy end of the market. We cannot compete in the light end with the Italian manufacturers, but in the heavy end Italy does not have this technology at this time. They do not care. Pollution has not been a factor in Europe until just the last two years. Cities such as Mexico City are reacting because pollution is totally unbearable in Mexico City and so now it is strictly economics. Cities such as Rome are starting to change now. They are going to impose emission controls that California started bringing on 10 years ago.

Mr. McFadden: Why is this tax being imposed--I wonder if there is somebody to explain it--on this particular group? They seem to be innovative and trying to build a group here. Why is this being imposed in Ontario at this time?

Hon. Mr. Nixon: We are reducing the rebate, because in the case of certain fairly high cost vehicles--I am not talking about buses; I am talking about automobiles--since we were getting a sales tax reduction on the overall cost, or a major part of the overall cost, it would allow them to convert and leave quite a bit of money left over. If you were going to take Dennis's Maserati, or whatever it is, and convert it and the retail sales tax exemption was on the cost of the car, you would make money by the conversion. We did not think that was appropriate.

It is cheaper to switch to propane than to natural gas and certain other gases, so we made a variety there--a range there. The real saving comes in the fuel. The buses, when they are converted, have an advantage of up to 40 per cent because of the cheaper fuel. I think that is what drives the conversion rather than the lack of sales tax on the basis of it. The change was because there was a clear indication of some inequities in this. People who were converting got back substantially more than the cost of the conversion.

10:30

Mr. Mackenzie: What is the effect on Treasury?

Hon. Mr. Nixon: It has an effect of about \$6 million in a full year.

Mr. F. S. Miller: In this case, one cannot argue sales tax consistency. You can argue that if you are going to tax a diesel bus, you should tax any bus with any power. However, I suggest that your change in taxation does one thing and implies a second. First, there was a case where Treasury was asked to do something by a fellow ministry, rather than wanting to do it, and that was to be consistent with our off-oil policy, a point you have made. These are the greatest consumers of off-oil. They are heavy and go all the time.

As you know, and I hope you still agree, we concluded back in the days of the oil crunch that we had to look at indigenous supplies that were cleaner burning as well. Cleaner burning, I have to admit, was a benefit, but it was not the driving force. The driving force was to back up the Ministry of Energy's attempts to stop imported oil and to use up Canadian resources where we had the supply in the hundreds of years instead of in decades. This would imply that policy is no longer in place.

The second thing that frightens me is the point you just made. When we took the sales tax off propane fuel and propane vehicles, it was quite right

that people would say: "I do not want to convert to propane, get trapped into it and next year discover you are putting the sales tax back on propane or natural gas. Can we have some understanding that we are not going to get caught with a reimposition of motor vehicle fuel tax on gaseous fuel?" Are you saying to me that in your lifetime as Treasurer you will not reimpose sales tax on gaseous fuel?

Hon. Mr. Nixon: I am not saying that.

Mr. F. S. Miller: Okay, but you are taking the first step towards making people believe you may. That is the point I am trying to make. The fear of the consumer, which you have just reinforced, that the motor vehicle fuel tax on gaseous fuels might be reimposed could have a more serious effect because you have now taken this first step. I urge you to talk to the Minister of Energy (Mr. Kerrio) and to decide whether the imperatives which caused the Treasurer of the day to say we had to support an off-oil policy are not still in place. I believe they are and I believe you are building a Canadian industry based on it, which is endangered by losing its home market.

The moment Ontario started to take the sales tax off vehicles with gaseous fuels, the companies started making them on the production line. Up to that point, they all had to be converted. Ford started making them because there was at least a token market that offered an opportunity. It was not a great success, but it was not a great failure. At least we opened up that market.

I am a bit nervous about that potential for change. I urge you to think about the implications.

Mr. Haggerty: Suppose everybody went to gaseous fuels such as propane or natural gas. Then there would be no road tax at all.

Mr. F. S. Miller: You are right, but not everybody will. That is something we had to face. The Minister of Energy would have been delighted if that had happened, as would the Minister of the Environment. It was a government policy to direct people in that direction, and the sales tax was the instrument. It was not the Treasurer's wish, let me assure you, to lose that revenue.

With regard to phase 2, you are going to a rebate instead of a tax exemption. Why? Past politics--I have had to sit on your side of the table--say say all politicians like to send cheques with their names on them to somebody receiving something. As a government, we elected to avoid the direct "here is a cheque from your friendly government for the sales tax you paid that we are giving you back" route. I may be re-enforcing your decision by saying so. I am sure it never crossed your mind, but I argue that the red tape you set up in a rebate system, which we rejected, will irritate the customer, will irritate the dealer and will employ staff that your Ministry of Revenue--one of the most efficient in government, let me tell the deputy--will not be anxious to have.

Hon. Mr. Nixon: Let me assure Mr. Miller that my motives have nothing to do with sending out cheques. My experience is that you can send out cheques until the cows come home and still people will not vote for you if they do not want to.

Mr. F. S. Miller: I am living proof.

Hon. Mr. Nixon: I wanted to give you a nice laugh.

With the intricacies of leasing and so on, the officials found the rebate to be much better administrative practice, fairer and more appropriate than the alternative you had selected previously. I certainly changed it on advice. It was not something that came from my brow particularly. The administrators of the program advised it, and I felt it was appropriate advice and that it was not politically driven in any way. I have a good deal of confidence in the administration of Revenue to see that those cheques get out in a timely way, so that people are not going to be offended by being embroiled in the intricacies of bureaucracy.

Mr. F. S. Miller: I do not recall that you ever as critic implied that the tax cheques rebates we sent out to seniors had a political overtone.

Hon. Mr. Nixon: I implied that you thought they did.

Mr. F. S. Miller: Perhaps you agreed with our thoughts.

Hon. Mr. Nixon: I thought it was probably a crass way of doing things.

Mr. F. S. Miller: That is the point I am trying to make.

Hon. Mr. Nixon: I will just say that never crossed my mind.

Mr. F. S. Miller: That is just the point I am trying to make.

Mr. Mackenzie: Can I ask the Treasurer whether he does not feel there may be a downside to this in terms of encouraging the use of alternative fuels, which I think is still a valid argument?

Hon. Mr. Nixon: Right. If it were the policy of the government actually to send out a cheque to anybody who converted, above and beyond his costs, there might be a downside. Our feeling is that we should not be subsidizing it beyond the actual costs. We want to continue to provide encouragement, but the real reason to convert is not to get the subsidy for conversion but to get the advantage of a cheaper fuel in the long term.

Mr Miller made that point, and it would be irresponsible of me to say that motor vehicle fuel tax will never be applied to that fuel. I do not intend to apply it but I may. I think we are all aware that while the preservation of scarce petroleum resources is important, the exigencies of that are somewhat changed from what they were when this came in, when the government, together with the government of Canada, was seeking every possible off-oil alternative and putting it forward. The cost of heating with oil products is plunging this winter. The average householder is going to save \$200 to \$300. I am not saying it is not important that we conserve and so on, but the pressure on the policy has moderated somewhat.

10:40

Mr. F. S. Miller: I cannot let it go at that. Every expert will tell you we are in a temporary blip in terms of liquid fuel. One has to recognize that it could change tomorrow morning. You could have an overthrow of the Saudi government; the Iranian crisis caused the same kind of tumult. Any policy that is predicated upon the status quo continuing is wrong.

There is merit in your argument that you should not overfund the conversion cost, but that was not lost on us when the policy was brought in. You can spend all kinds of money advertising the fact that you have an off-oil policy. You can set up a ministry to encourage alternative fuels. You can do all kinds of millions of dollars worth of Ontario Energy Corp. work or whatever, but one of the surest ways to get a businessman to follow your policy is to let him rip you off a bit on tax. You are going to tell me you should never let that happen, but the fact is--

Hon. Mr. Nixon: You should never let that happen.

Mr. F. S. Miller: If a business man says it costs him only \$2,000 or \$3,000 to convert and that right off the bat he is saving \$12,600 and that he had better go for that, he will make a decision that conforms to the policy direction you want. You have accomplished something on which you would have spent the difference in advertising. That is the point I was making.

Hon. Mr. Nixon: In case there is any misunderstanding, I can assure you that the thought of the government, or the Treasurer at least, is not to return to the bad old days of heavy petroleum use where one buys the heavily consuming sports cars and things such as that, which burn up all that petroleum fuel. The real savings in petroleum utilization has come from the very pressure Mr. Miller is talking about, and it does not take a businessman to want to buy a good car that gets better mileage.

Mr. F. S. Miller: I agree with you on cars.

Hon. Mr. Nixon: That is where the real reduction in petroleum has come about. Of course, the government's off-oil program, mostly federal, has put people into electricity, which is a very strange way to conserve energy, and into natural gas, which is much more sensible. In fact, that is what we are talking about. If you can heat with natural gas, it is much more sensible than electricity. I hope your friend down the road is not listening to me.

I do not want you to go away with the idea that the policy of the government has gone from conservation to profligacy. Quite the opposite. We feel we should not overfund the conversion, and that is really all this does. This is not world-class policy, obviously. We want to amend the act in a minor way to stop overfunding the conversion.

The gentleman made a very interesting point on buses. The reason to have buses is not to get money on a conversion but to save money on fuel, which in these heavy vehicles amounts to as much as 40 per cent, unless somebody diddles with the numbers. As you point out, they are running all the time.

Mr. Canning: May I summarize a few things?

Mr. Chairman: Yes.

Mr. Canning: We in our industry do not perceive any oil shortage; the problem is only the cost of oil, even domestically. I am not taking issue with what Mr. Miller just said. The interruption of wars and disruption of supply lines have impacts, but things change so quickly. In Quebec today, oil is being imported along the St. Lawrence River and displacing natural gas, where we have an involvement, at significant savings. This happened in a matter of six months. Major industries along the St. Lawrence River can buy imported oil for about half the price of natural gas if they have the ability to buy spot market.

Hon. Mr. Nixon: Excuse me. When you say at half the price, do you mean on a BTU rate or what?

Mr. Canning: On the BTU rate, yes. We simply cannot compete. Donovan is one industry, as an example. This happened after a \$10-million investment.

Hon. Mr. Nixon: That is because the government of Canada has gone to the world oil price and the national energy program has disappeared, so there is no government involvement in maintaining the conservation of our scarce oil resources.

Mr. F. S. Miller: Hansard is always there with your comments, you know.

Hon. Mr. Nixon: I wanted that to go on in case I need to defend myself. I can see Mr. McFadden building up to a major explosion.

Mr. Canning: I totally agree with your comments on abuse of a very worthwhile off-oil program. The industry does not support using an alternative fuel, for example, in recreation vehicles to bypass paying the proper tax on them. You buy a \$100,000 motor home and put a little propane tank on it to operate the vehicle and circumvent the \$7,000. The industry does not want to be a part of that, and we fully support you. It endangers our livelihood, quite frankly. Nobody could sit still for that.

The industry is prepared to take its proper place in taxing the fuel at the appropriate time. You may recall when tax was put on diesel fuel in Ontario. I am of that vintage. I remember quite well a company in Owen Sound saying that because the Ontario government put a tax on diesel fuel, it would put them out of business. We know that has not happened, but there are always periods of adjustment for any intervention by the government, good or bad, that affects people. It affects cash flows, businesses and so forth. We mentioned that the national energy program was good or bad, depending on where you were involved.

Having said that, I want to leave the committee with perhaps the most important issue we are talking about today. We hope to have this bus running in Toronto in three or four weeks. This bus operates on natural gas. If anybody would like to look at, he can peruse this. The emissions from that bus are completely harmless. You could almost heat your home with the emissions from it, and that is no exaggeration. I hope to have a public reception for this bus about the middle of December.

Hon. Mr. Nixon: What is the cost of the bus?

Mr. Canning: In Ontario you can buy the bus for the same cost as a diesel bus on an original equipment manufacturer basis because of the tax concession today. If you put the cap on it, it will cost \$14,000 more than a diesel bus. The TTC and those guys have a comfortable shoe. Most of us do, and we do not want to change unless there is a significant reason to make a change.

Hon. Mr. Nixon: Part of the sales pitch, though, would be that your fuel costs would be reduced by 30 per cent or 40 per cent.

Mr. Canning: That is true and it is acknowledged, because these people are responsible. However, you would be surprised; it did not cut any ice at all in New York City. Because of the way the cash flow comes and because there is no competition, you do not have to worry that somebody will be cheaper than you. We are in that sort of milieu.

Hon. Mr. Nixon: You said the exhaust is nothing but carbon dioxide and water.

Mr. Canning: Basically, yes. We use dual catalytic converters on there. They are manufactured by General Motors.

There is no alternative fuel in the world except hydrogen, which is not a viable consideration. I happen to be involved in hydrogen in another way. It will never come into the transportation sector. This is the only fuel that is viable to replace diesel oil. It is the only fuel that has the capability of replacing diesel fuel, and it is the only fuel the fire marshal's office in New York City will allow in there.

It was quite a job to get it. For example, they do not allow you to park propane buses inside and they will not take them through a tunnel. We have approval to run this through tunnels, park them inside, the whole thing, and New York is the toughest city in the world for the fire marshal. This guy is the worst in the world, and we satisfied his every concern.

We also satisfied the Environmental Protection Agency. In Washington, they did not really consider natural gas as an alternative. They are locked into methanol, and we believe methanol is going nowhere.

Hon. Mr. Nixon: When you go down to sell these things, you will now have to say you are sorry but your price is up by \$14,000 Canadian, if this were to go through.

Mr. Canning: No, that is not true; it does not really impact.

Hon. Mr. Nixon: Not over there.

10:50

Mr. Canning: No. This is domestic consideration. The Ontario government is the only reason we are in this business and doing what we are doing. It got us involved. We looked at the thing, and it made all the sense in the world.

Then we recognized there is no place in the world this technology is available. We have developed it. We have spent approximately \$500,000 in this small company to develop it. We had to get the technology from Europe and the US, but now it is Canadian. It is here, it is ready to go and even the Americans recognize we have a good mousetrap. We have a good opportunity.

Hon. Mr. Nixon: I see on the back of the picture that the fuel costs are 19 cents a mile with natural gas versus 39 cents a mile with diesel. That is quite dramatic.

Mr. Canning: It comes very close to your home. That is in the city of Hamilton with 1985 numbers, as you see at the end. Energy's numbers have changed dramatically in a matter of days and months, as you know. That is the experience of the city of Hamilton in operating a natural gas bus compared with a diesel bus. Those were its numbers.

Hon. Mr. Nixon: We will have to take a look at the impact on vehicles such as that.

Mr. Canning: Do not lose sight of the environmental consideration.

It is hard to put a price on the impact this has on the environment. If anybody is going to impact the industry, the government should show the lead with vehicles it can make an impact with. In mass transit, the cash flow is provincial.

I say this sincerely. The environmental considerations are far greater than the economics and the substitution of oil. We have interruptions of oil supply but we have no shortage, because it is just a matter of the cost of tar sands or even the cost of making oil from natural gas. We can do it any way we want, but it is expensive. In the long term, this would be a benefit for the trucking industry rather than a hindrance.

The Acting Chairman (Mr. Cordiano): For my own edification, do you have any competitors in the area of conversion of buses?

Mr. Canning: On buses specifically we say no. Within the confines of this room I would mention that BC Hydro, which is funded by the British Columbia government, has done some work on this. It was on display at Expo 86. We do not think its technology would be successful. The technology we have here is far superior. To answer your question, we have no meaningful competition at this point.

The Acting Chairman: What about the export market?

Mr. Canning: Thailand came to the offices of Consumers' Gas because it had heard through the American Gas Association what Ontario is doing. I want you to understand we are in the forefront of this technology. There is nothing better in the world.

It is recognized internationally that we have a pretty good mousetrap. That includes the research people in Europe whom our company retained to do work for us because we did not have the facilities in Canada or in the US. We have international recognition and are involved in every international opportunity that is available right now.

Hon. Mr. Nixon: We will have a look at increasing the cost for buses that are for sale locally. I am informed it does not affect the export business in any way.

Mr. Canning: It does indirectly. If Ontario does not support it, if we do not have it, we will not have the business for export. Until January 1, the buses are competitive. After January 1, they are not competitive. We are capped at \$1,000.

I agree we do not want abuse, but if we are going to impact on the environment with tremendously greater force than a Volkswagen car, that should be taken into consideration logically. From an economic point of view, you do not evolve fuels from the Volkswagen level as a rule; it is from the locomotive end. We are saying, come down from that end. That is the way it has happened in Ontario historically, and we say that is the only way it will happen on a free-standing basis, without support.

Hon. Mr. Nixon: Your argument has made an impact.

Mr. Canning: Thank you, Mr. Nixon. I would like to say to Mr. Mackenzie that Stelco is putting its fork-lift trucks on natural gas to be competitive in exporting steel to the US.

The Acting Chairman: Thank you very much, Mr. Canning. We appreciate your coming before the committee.

I believe we have Peter Lambert next. Is he here and available?

PETER LAMBERT

Mr. Lambert: Unfortunately, I did not know exactly how to come here. I have one set of articles.

Mr. Chairman: Have a seat, Mr. Lambert. If you have only one set, perhaps you could--

Mr. Lambert: I have two sets.

Mr. Chairman: You can give one set to Mr. Carrozza. He can make copies for us, and you can proceed with your presentation.

Mr. Lambert: Yes. The reason I am concerned is that in certain effects from the consumer point of view, particularly regarding the things children use, there appear to be two sides of the fence. There is honesty and there is what the law says, and they seem to be on opposite sides of the fence.

If I can point out a couple of examples from the first document, which is the Ontario sales tax guide 146 for retailers, on the second page it gives the example of the manufacturer's bottlecap coupon for a free bottle of pop valued at 45 cents. Under the act as it is written now--

Mr. Chairman: You are looking at an Ontario sales tax guide issued by the Ministry of Revenue on discount coupons.

Mr. Lambert: Yes.

Mr. Chairman: Number 146, dated March 1983.

Mr. Lambert: It is still the last one you can obtain. You can obtain copies at 50 Grosvenor Street or at Yonge and Eglinton. On the second page of that, the first example lists as the last item a manufacturer's bottlecap coupon for a free bottle of pop valued at 45 cents. When you go through the example down to the second last line, it says "Pop, no allowance for manufacturer's bottlecap coupon." It still has 45 cents. Therefore, the tax is calculated on the 45 cents.

Unfortunately, if you go to the Oxford, Webster's or any other dictionary, the definition of free is "without cost." From having used manufacturers' coupons through a survey to see what happens, 90 per cent of convenience store operators and cashiers believe free agrees with the dictionary definition, which means you should not pay anything for it. Therefore, they do not charge the tax, whereas in the act it comes under item 405, section 2 and subsection 38(1). Subsection 38(1) specifically forbids it.

Will I go on to the next concern?

Mr. Chairman: We are looking at Bill 26 and the amendments that have been proposed by the Minister of Revenue. I do not know whether we have the power in this committee to look at other possible tax problems.

Mr. Lambert: This is partially covered under subsection 4(1). It is

spelled out in there whether these problems can be eliminated by change. Which do you want? The bill or the explanation at the beginning?

Mr. Chairman: I am looking at the explanation. Can you explain why you think it should be brought within that?

Mr. Lambert: It could be done by covering it under subsection 4(1) on the third page.

Mr. Chairman: Yes.

11:00

Mr. Lambert: This is where the items that are purchased by children are covered. I wonder whether it is possible, instead of just changing this to \$2 from \$1, to expand the scope of it to cover all the items within clauses (a) and (b), rather than now covering part of clauses (a) and (b). This would correct the problem, which is what the next example shows you. It is just one method of doing it.

Mr. Chairman: Yes. Does the ministry have any comment on that?

Mr. Williams: When you are looking at coupons, you are looking at two types. You are looking at an in-store coupon or a manufacturer's coupon. The in-store coupon is a true discount off the price. If they discount it down to zero, then you pay no tax. The store will be considered to have given away the goods and will be responsible for paying the tax on their cost. On the manufacturer's coupon, the manufacturer is giving you the money to buy the product. It is the same as if you find the 50 cents or \$1 or whatever it is on the street and use it to buy the pop, razor blades, toothpaste or whatever.

Therefore, the store itself receives exactly the same money it would have received had you not had the coupon. If the pop is 50 cents and you have a coupon worth 50 cents, then it rings it up as 50 cents plus four cents tax. It accepts your coupon at a tax value of 50 cents, and you are left with the tax of four cents. This is true. In advertising it, the manufacturer has to take into account that you may have also gone into a store in Alberta and done the very same thing, where, of course, there would not have been any tax.

Mr. Lambert: I agree that, legally, you are correct. If you take a child who is brought up to tell the truth, what does "free" mean to him? The same applies to the cashiers and convenience store owners, who do not understand that "free" does not mean "free." If you turn to the second example--can you look at the Hershey refund offer?

Here is a very ethical company that has a refund offer. I gather from what I was told by your department that because of section 38 of the act, this is also illegal. It is a very honest and ethical company. In order to enable you to receive the complete refund by mail, to get the money back, which is 55 cents, they give the bit to fill in the provincial sales tax and they pay the postage stamp that you pay to mail it in, which means you have agreed with the offer, which is not part of this bid.

The next coupon is actually to show what a manufacturer can legally do. He can expect you to pay the stamp for a refund and send a stamped, addressed envelope back, which will cost you 68 cents, to get a 55-cent refund. Hershey, being a very honest and ethical supplier, wants to follow what it says and give you everything back, which, as I understand it, with the present act is

not allowed. This could be corrected if, for a small amount of money, there was no provincial tax.

Mr. Williams: That is not entirely so, because Hershey is not the vendor in this one, and you made reference to subsection 38(1), I believe, which says that no vendor may absorb or pay the tax. In this instance, Hershey is not the vendor. You bought it from a retailer, which is, in fact, the vendor. Hershey is simply reimbursing you for your total costs, which is a different matter. That is not in contravention of the Retail Sales Tax Act.

Mr. Lambert: In the interpretation I had previously from someone at Yonge and Eglinton, the manufacturer was not allowed to give you the refund of the provincial sales tax.

Mr. Williams: I disagree with that interpretation.

Mr. Lambert: My apologies then. I was led astray by somebody.

Mr. Williams: That is legitimate. You will find that some manufacturers' coupons now state on the front of them, "Does not include provincial sales tax." It will say "free" on it, but later you will notice that it says in the fine print somewhere, "but does not include provincial sales tax." All the provinces operate the same way.

Mr. Lambert: Can they refund you the provincial sales tax?

Mr. Williams: The tax is extra, if it is just the ones you were talking about earlier in this tax guide, but there is nothing to prevent a manufacturer from making a separate deal between you and him, avoiding the vendor. The vendor gets all he is supposed to get. They are sending you the total amount you paid out, including your postage, as you have pointed out. There is nothing against that.

Mr. Lambert: My apologies. I was misled about this.

Mr. Williams: Sorry about that.

Mr. Lambert: It goes back to the original coupon. "Free" does not mean "free."

Mr. Chairman: Do you have another point, Mr. Lambert?

Mr. Lambert: The other points were not really covered by this. It was just to show the confusion in the marketplace. The Boots circular lists a coupon on the front page. If you read the definitions of the two types of coupons in the sales tax guide, it is issued by a store, redeemable only by the store, but the provincial sales tax is applicable on the \$1.49 and not on the 99 cents.

Mr. Williams: What is not clear is whether that was a store coupon or a manufacturer's coupon. Boots could be reimbursed by Procter and Gamble for the two-phase coupon, in which case it is really a manufacturer's coupon. They are just trying to encourage you to redeem it only at Boots.

Mr. Lambert: I gave you a copy of my statement from one of the major department stores. The last item shows how the wonderful computerized system is such that with discount coupons I get a refund of provincial sales tax that I have not even paid in the first place.

Mr. Ashe: That is a good deal.

Mr. Lambert: This is how much confusion there is at the retail level about the provincial sales tax. If it is not within the scope of this committee, can you tell me how you can attempt to make it simpler so the retailers and the consumers can conform with the system? That is the very last item.

Mr. Chairman: Any presentation that attempts to clarify or clean up the confusion in tax laws is something we should be aware of. We are grateful to you for bringing it to our attention. Are you basically here as a consumer?

Mr. Lambert: I am here as a concerned consumer. I believe in the truth. It is a lot simpler to function that way. It is a matter of principle. In my opinion, there are more ethical manufacturers than unethical ones. The majority of people are honest. The problem is that the small retailers are not aware of the intricacies of the act. If it can be simplified for them, the effect is--

Mr. Chairman: Does the ministry have any comment on the statement from the department stores?

Mr. Williams: Based on the information available in this statement, I would say you got a bargain.

Mr. Lambert: I will agree with that. This shows how even a big computerized system ends up. They do not follow the interpretation that is given here.

Mr. Williams: I guess in this instance the computer is only as good as the programming that went into it, and somebody slipped up.

Mr. Lambert: Even that computerizing disagrees with the method in the sales tax card for money coupons.

Mr. Chairman: I believe the bargain can be obtained at the Bay, if anyone is interested.

Mr. Lambert: Actually, that was purchased at Simpsons. The computer at Simpsons and the Bay is pathetic, by the way. Am I allowed to say that?

Mr. Chairman: Thank you very much, Mr. Lambert.

Mr. Lambert: My apologies if I have given you things that were not part of the study.

Mr. Chairman: I think it is important that you bring it to our attention if there is confusion in the marketplace. We appreciate your doing that.

Mr. Ashe: As I understand the last example the gentleman used of his account, the loser in this case is the provincial Treasury. The winner is obviously the customer.

11:10

Mr. Lambert: Correct.

Mr. Ashe: The store is giving away some of your money because, undoubtedly, they charge it back to the net retail sales tax that they are going to remit to you each month. The Treasury is the loser, the consumer is the winner and the store is made to look good because the consumer wins.

Mr. Williams: Only until we do an audit.

Mr. Ashe: Except I doubt most audits are going to go through customers' accounts one by one.

Mr. Chairman: If you would care to leave your address, Mr. Lambert, the ministry would be prepared to discuss this in further detail.

Mr. Lambert: Would it be in order to mention one other thing from that point of view? This morning's paper did not have an example of it, but every other week it has one. As I understand it, it is not legal for these retailers to offer to pay back the provincial sales tax, which car dealers have had in for the past number of weeks and which means they still get their full seven per cent. If, however, they put in an extra little bit that said, "obtained by giving a retailer's discount of 6.542 per cent," so that the customer ends up paying the equivalent price without the seven per cent sales tax, this would appear to be legal, but then the province would get 6.542 per cent less.

Mr. Sholtack: The position of the ministry is that as long as they do not say they are giving you back the sales tax--There have been advertisements in which they say they will give you an equivalent to sales tax, which is fine. The intent of the act is so that the vendor does not indicate to the consumer that they do not have to pay the tax. That is the purpose of the provision.

Mr. Chairman: May they say, "We will pay your sales tax for you"?

Mr. Sholtack: They usually say, "We will pay an equivalent to the seven per cent," so as not to indicate that you do not have to pay the tax.

Mr. Lambert: Again, I have a wrong interpretation from the Yonge-Eglinton Centre.

Mr. Chairman: In any event, we can release these documents back for your own purposes. As I say, the ministry would be quite prepared to elaborate on its explanations today, if you wish.

Mr. Lambert: Okay.

Mr. Chairman: Unless there is someone from the Yorkview Libertarian Association, that concludes the presentations we have this morning. At the moment, we have three presentations for next week. Thereafter, I hope we will report the bill back to the House.

The following week, we will begin to discuss the fiscal paper that was released by the Treasurer. I hope he will be here to go over that with us. In discussing this with the staff yesterday, we tried to set up a subcommittee meeting, but it did not work out. It was suggested, and I will put it forth now to the committee, that the overview occur between nine o'clock and 11 o'clock on November 27, followed at 11 o'clock by the estimates of the Ministry of Revenue and Management Board of Cabinet.

Unless I hear otherwise, I gather the members of the committee are ad idem that those estimates could be handled fairly quickly. Is that understood?

Mr. Haggerty: I do not know why we had Bill 54 handed out to the committee.

Clerk of the Committee: That is from the previous committee.

Mr. Chairman: This is the only bill we are dealing with so far.

Mr. Ashe: Are you aware whether the Treasurer is going to be in attendance with his Minister of Revenue hat on next Thursday as well?

Clerk of the committee: That is our understanding.

Mr. Ashe: I think it would be helpful to the committee if he might be in a position to give us the advantage of any changes he might be willing to consider. Appreciating this is a revenue bill, and regardless of the accord between two certain parties, there are still certain implications of attempting to amend a government financial bill, in my view.

I have the impression that the Treasurer is a reasonable person and is considering some of these issues. I hope he even includes the trucking issue that we heard this morning. It might facilitate a consensus on our report and, in turn, our reporting back to the Legislature, if he is aware in advance that we would like the benefit of his thinking prior to the end of our deliberations that involve him.

Mr. Chairman: I will transmit your concerns to him. To my knowledge, he plans to be here next week, although I am not certain of that.

Mr. McFadden: What are we hearing next week? What are the three we are hearing?

Mr. Ashe: They have principally to do with the tax on nonprofit organizations and entertainment organizations.

Clerk of the Committee: It is the representatives from Massey Hall and Roy Thomson Hall, All-Way Transportation Corp. and the Retail Council of Canada. You have two presentations in front of you, All-Way Transportation Corp. and the letter from Massey Hall.

Mr. Ashe: I move we adjourn then.

Mr. Mackenzie: Before we adjourn, there is a possibility the Treasurer might have some reworking on section 4 or section 5 having to do with alternative fuels. From his comments at least, he was going to look into the situation with regard to the buses.

Mr. Chairman: Yes.

Mr. Mackenzie: It would be useful to have his thinking on that, so I would agree.

Mr. Chairman: We will try to make certain he is prepared to respond to the committee on that.

Mr. Mackenzie: The other thing on which I would like to have a little more outline is section 6, the charities and so on.

Mr. Chairman: I am sorry. What was the rest of what you said, Mr. Mackenzie?

Mr. Mackenzie: I would like a little more dialogue on section 6 dealing with the tax on the charities.

Mr. Chairman: All right. The other thing Mr. Carrozza has asked me to bring to your attention, Mr. Mackenzie, because I am not sure you were in the room when I mentioned it a minute ago, is that we hope the Treasurer will go through the fiscal paper with us in an overview on November 27 between 9 a.m. and 11 a.m., followed at 11 a.m. by consideration of the estimates of the Ministry of Revenue and Management Board of Cabinet. I gather from all three parties there is a consensus that they could probably be dealt with in about an hour.

Mr. Mackenzie: I have a private members' bill in the House that day that is of some importance, but Jim will be here if I am not.

Mr. Chairman: I think it was Mr. Foulds who first suggested that time frame.

Mr. McFadden: There is a bit of a problem here. Mr. Ashe, our critic in that area, will not be here that day.

Mr. Ashe: I will not be here on November 27. I will be out of the country.

Mr. Chairman: You would prefer another time then.

Mr. Ashe: I would prefer the following week, if it is at all possible and not too inconvenient. I concur; I do not think there is any necessity for anywhere near the hours that are allocated to those estimates. We will not give Revenue a hard time.

Mr. Chairman: No. Perhaps, if necessary, we can convene a subcommittee meeting to work out a different time.

Mr. Ashe: It would be appreciated. I am not asking you to change it. If it is convenient to change it, that is all the better; if not, I appreciate that life goes on.

Mr. Chairman: Right. That raises a subject that I would perhaps throw out to the committee. The Treasurer's review of the paper may consume the full three hours on November 27 or it may consume two hours; I do not know. As well, with three scheduled presentations and the discussion of the Treasurer's views and the reporting back next week, it may be that it can be done in fewer than three hours.

Mr. Sargent has a proposal that he has been proffering around the Legislature for some time concerning attacks on certain stocks and bonds or something of that nature. Is the committee interested in granting him an hour at the conclusion of either next week or the following week, if it turns out we have time, as we did this morning?

Mr. Haggerty: I have no difficulty.

Mr. Mackenzie: If we have time, there is no objection.

Mr. Ashe: I have to clarify what he is trying to do. If we are into the budget process for next year, and I do not think we have got to that yet, I presume that is where he would fit in. Is he talking about the imposition of a tax or the removal of a tax?

Mr. Chairman: No. Simply, it would be the imposition of a tax. You are quite correct. Normally, it would be part of the budgetary process. When we get to that, I am not certain how much time we are going to be able to allot to various interest groups. Obviously, he is a member of the House, so he is available. It may be possible to squeeze him in if the schedule collapses in any one of the next couple of weeks.

Mr. McFadden: Perhaps we should do that on November 27 after the Treasurer's appearance.

Mr Ashe: Great timing.

Mr. Chairman: It is agreed. Is there any other business? No.

The committee adjourned at 11:20 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

RETAIL SALES TAX AMENDMENT ACT

THURSDAY, NOVEMBER 20, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Marland, M. (Mississauga South PC) for Miss Stephenson

Clerk: Carrozza, F.

Witnesses:

From Woods Gordon Management Consultants:

Shaw, A., Consultant

From the Ministry of Revenue:

Nixon, Hon. R. F., Treasurer of Ontario and Minister of Economics, Minister of Revenue and acting Chairman of the Management Board of Cabinet
(Brant-Oxford-Norfolk L)

Williams, A. B., Director, Retail Sales Tax Branch

Russell, T. M., Deputy Minister

Sholtack, G., Senior Solicitor, Legal Services Branch, Oshawa

From the Thunder Bay Community Auditorium:

McCurdy, B., General Manager

From the Corporation of Roy Thomson Hall and Massey Hall:

Butler, G., General Manager

From the O'Keefe Centre for the Performing Arts:

Cutts, C., General Manager

From The Centre in the Square:

Walker, S., General Manager

From Hamilton Place:

Burrows, T., General Manager

From the National Ballet of Canada:

Johnston, B., Administrative Director

From All-Way Transportation Corp.:

Hould, R., Vice-President and General Manager

From the Retail Council of Canada:

McKichan, A. J., President

Doucet, G., Senior Vice-President

From the Propane Gas Association of Canada (Ontario Committee):
Patterson, M., Future Chairman; Vice-President, Ontario Region, ICG Liquid Gas Ltd.
Wauchop, S., Director and Marketing Analyst, ICG Liquid Gas Ltd.
Macdonald, T., Future Vice-Chairman

From the Ontario Public School Trustees' Association:
Morrow, K., President
Rowe, M., Past President
Phillips, W., Executive Director

From the Ontario Public School Directors' Association:
Fraser, J., Treasurer

From the Fair Play Crusaders:
McMillan, J., Chairman

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 20, 1986

The committee met at 9:04 a.m. in committee room 1.

RETAIL SALES TAX AMENDMENT ACT
(continued)

Mr. Chairman: I see a quorum. Your agenda has an alteration at the beginning. We have with us Andrew Shaw, who represents not only Massey Hall and Roy Thomson Hall but also a number of other centres of the performing arts, including the Centre in the Square. Mr. Shaw, perhaps you can start.

NOT-FOR-PROFIT PERFORMING ARTS CENTRES

Mr. Shaw: While I am being wired for sound, I will take this moment to introduce my delegation.

Our report has been handed out. It is red. We felt we would make your life easier by coming as one delegation as opposed to six individual delegations and bog down your system.

Hon. Mr. Nixon: We appreciate that very much.

Mr. Shaw: We have precisely six overheads we want to use to walk through the issues quickly; so we will not ask you to read the report now, although it includes an executive summary.

The organizations that are represented today include the Centre in the Square, with general manager Scott Walker; Hamilton Place, with general manager Tom Burrows; the O'Keefe Centre for the Performing Arts, with general manager Charlie Cutts; the Thunder Bay Community Auditorium, with Brian McCurdy; and Roy Thomson Hall and Massey Hall, with Geoffrey Butler.

From the National Arts Centre we had several people anxious to attend, but all of them were terribly busy. Fortunately, we ended up getting the assistant director general, Ron Blackburn, who is with us today.

In addition, from Hamilton we have Brian Conacher, the chief executive officer of the umbrella organization, Hamilton Entertainment and Convention Facilities Inc. He is with us today as well.

One final addition to our delegation is Bob Johnston, the administrative director of the National Ballet of Canada.

My name is Andrew Shaw, and I am from Woods Gordon. I am here to help these organizations make their presentation to you.

Hon. Mr. Nixon: Lose the sales tax.

Mr. Shaw: That as well, to put it bluntly. You will see a lot of good reasons not--

Hon. Mr. Nixon: I am thinking of all the extra revenue that is going to be lost.

Mr. Shaw: First, the impact of the tax is largely unknown because of the far-reaching yet unresearched implications of the measures. From the Brockville Concert Association to the Women's Musical Club of Toronto to the Porcupine Concert Series--if you can imagine porcupines singing together--the implications of these taxes will reach all across the province. Many members of the performing arts community in Ontario are unaware of these measures and would be making a submission if they knew about them.

The Ontario Arts Council, in its touring sponsors list, lists more than 400 sponsors in this province. This list is incomplete and represents only one component of the industry in Ontario. For the six major halls alone, the loss from the tax would be a minimum of \$1.6 million, and it would likely be greater than this because of the falloff in the number of shows.

Hon. Mr. Nixon: Wait. Do you mean the people who go to the show are not going to pay the tax?

Mr. Shaw: They will pay the tax, but it will impact on prices and the cost of shows, as I will demonstrate in a second.

The municipalities do not fund their performing arts facilities to foster provincial taxation. Through municipal taxes, citizens pay significant amounts to maintain the performing arts facilities. This subsidy is not provided with the intention of creating a tax vehicle for the Ontario government. For the six halls alone, the subsidy is more than \$1.5 million. The subsidy cannot be increased, because there is even pressure to reduce it.

Brian McCurdy from the Thunder Bay Community Auditorium has an example of that.

Mr. McCurdy: In our current budget preparation for 1987, all departments within the city, as well as the outside wards, which is what we are, have been requested to submit budgets based on 97 per cent of last year's grant. Obviously, we already have a gap, and we are having to cut back. As well, we have instructions that there will be no increases over the three- to five-year period; budgets will be either frozen at current levels of subsidy or cut back from there.

Hon. Mr. Nixon: Is it your hall that has Tony Bennett coming next week?

Mr. McCurdy: Yes.

Hon. Mr. Nixon: What does it cost to go to hear him?

Mr. McCurdy: That is a private fund-raiser for a political party, and the cost is \$100.

Hon. Mr. Nixon: Tax-free.

Mr. McCurdy: I will not tell you how many tickets have been sold.

Hon. Mr. Nixon: They have been pushing them hard on me.

Mr. Shaw: Exhibit B in our formal submission contains letters and resolutions with respect to this tax and municipal funding.

Audiences are price-sensitive. An admissions tax would reduce hall revenues because of lower attendance or lower ticket prices designed to absorb

the tax. If it were thought that the market could tolerate an additional 10 per cent on ticket prices, prices would certainly have been raised. The government knows this from its experience in stimulating demand by removing tax on commodities such as automobiles or furniture. Geoff Butler, the general manager of Roy Thomson Hall and Massey Hall, has an excellent example of this price sensitivity.

Mr. Butler: Until about two years ago, we presented major world orchestras from different parts of the world at a top ticket price of about \$30. That has now gone up to about \$39 because of market factors, about a 20 per cent real increase in ticket prices. The demand for tickets has been hurt by that increase. A further 10 per cent increase in prices will aggravate the problem and further reduce demand for those tickets. Ultimately, it will make it difficult or impossible for us to present those programs in our hall.

09:10

Mr. Shaw: In addition, Charlie Cutts from the O'Keefe Centre has a different kind of example that may illuminate this problem.

Mr. Cutts: In May 1983, the O'Keefe Centre presented Charles Aznavour in concert and had a top ticket price of \$20.50. On one advertisement, the presentation sold out and it was standing room only. We brought him back a year later with a top ticket price of \$22.50, and we achieved 46 per cent sales on that attraction.

Hon. Mr. Nixon: The implication is that was due to the \$2?

Mr. Shaw: There are innumerable variables in this equation.

Mr. Chairman: In the first example, how did the attendance drop?

Mr. Butler: The attendance dropped from a complete sellout, about 2,800, to about 2,000, primarily because of the \$9 increase in ticket prices. The quality of the attractions did not decrease: from an orchestra from Germany to the Philadelphia orchestra, both of which are among the best in the world. The demand should have been the same for the two attractions. In fact, it was hurt by the ticket prices.

Mr. Chairman: You have never done any surveys of those people who went the first time and did not come back?

Mr. Butler: Surveys? No, we have not.

Mr. Chairman: Has the O'Keefe Centre not done so either?

Mr. Cutts: It is difficult to survey audiences that do not come. It is a fragile industry, and why a person buys a ticket depends on many factors.

Hon. Mr. Nixon: However, you have no doubt about the reason for the decrease.

Mr. Cutts: Price is one of the key factors in determining whether people come to a concert.

Mr. Shaw: We have a final example in this respect from Scott Walker of the Centre in the Square.

Mr. Walker: The Centre in the Square in Kitchener has, as one of its mandates, a requirement to present world-class orchestras. Indeed, in 1987, we have four world-class orchestras on our bill. Because of price sensitivity, the break-even is extremely high, and I have had to put all four orchestras on notice that if this amendment goes through, we will have to cancel all four because of the break-even position.

Mr. Chairman: Did you write a letter to some members of the Legislature suggesting you are going to have a reduction of something like 70 per cent?

Mr. Walker: In our estimation, we will have a reduction in our coproduction. You have to understand the variables in our business, but of our coproductions, we estimate that 70 per cent will be reduced.

Mr. Chairman: Where do you come by that figure?

Mr. Walker: It is an estimation, but the break-even on these coproductions is so high, economics will not allow us to go through with them on the 70 per cent. It is an estimate, I must admit.

Mr. Chairman: You cannot tell us how you base that estimate?

Mr. Walker: If we look at a break-even on a production of 95 per cent, all we have to do is look at another 10 per cent for tax.

Mr. Shaw: Equity: The issue of fair and equitable treatment. Who is being hurt now? Few, if anyone. Who is going to be hurt? Very many. Harbourfront and perhaps a few others face some inequitable treatment. The anomalies can be readily fixed. The Royal Alex, for example, has received exemption for a coproduction of the Canadian Opera Company. Under the proposed regime, however, numerous growing inequities emerge: Ontario Place, Winter Garden and Elgin Theatres, university facilities, etc.

Cross-subsidy: Cultural presentations are subsidized by commercial shows. For a typical show, the proposed tax would exceed the profit. In the same way, the United Way sponsors a performing arts event in the expectation that a profit will be realized and available to support their mission. So do the performing arts centres. Most people have the misconception that huge profits are made on a commercial show. Tom Burrows from Hamilton Place will give us an example of this.

Mr. Burrows: Two well-known examples would be--

Mr. Chairman: Could you come up to the mike?

Hon. Mr. Nixon: The difficulty here is that all your comments are being taken down for Hansard, and that is why the gentleman is wearing the mike. We can hear you well, but these are preserved for posterity.

Mr. Burrows: I was asked to give two examples of extremely high-risk performances we have presented.

Mr. Chairman: Just for the record, this is Mr. Burrows from Hamilton Place speaking.

Mr. Burrows: There is a very high break-even point on a show such as Joan Rivers's. We needed to do 90 per cent of capacity not to lose money. In

the event, we did. Total revenue was \$130,000. Our profit or surplus on that attraction was about eight per cent, \$10,000 of the \$130,000. The implications of the 10 per cent, the difference it would have made, are quite clear.

Another example is Evita. We often try to present major musicals in that facility. There is a very high break-even point. We could not and would not consider a one-week performance of a major touring show like Evita without being able to share the risk with a copromoter.

Hon. Mr. Nixon: Did you consider the Toronto production of Evita?

Mr. Burrows: We played the same production shortly thereafter; so there were other factors. Without the benefit of a shared risk, we would not have considered presenting the attraction at all.

Mr. Shaw: In addition, major commercial attractions generate significant employment for Canadians. Exhibit C in our formal submission includes two letters of support for reconsidering the proposed amendments from the major unions.

It is important in this discussion to note the difference between not-for-profit and profit organizations. In a not-for-profit organization such as all these halls represented here today and most of the other sponsors, as well as many other members of the industry, if revenues exceed expenses, those excess revenues, as mandated by the mission and legislation, are ploughed back into the operation to provide service for the community. If it is a profit organization and revenues exceed expenditures, the owner can do what he wishes, which is usually to put it into his pocket. This is why most jurisdictions allow an exemption for not-for-profit organizations.

The Ontario system was recognized as being so good in this that the Bovey commission on funding the arts singled it out as the best way to do it.

Hon. Mr. Nixon: Your correct tax designation is charitable, is it not?

Mr. Shaw: It is charitable, but it is also a not-for-profit organization.

Hon. Mr. Nixon: I would hope so.

Mr. Shaw: There is a difference between not-for-profit and charitable organizations by legislation.

Hon. Mr. Nixon: Yes, but your designation is charitable, is it not?

Mr. Shaw: Copromotions are essential to the viability of the industry. The risks inherent in the industry necessitate copromotion. The imposition of the proposed tax would eliminate many of the copromotion attractions. Without these attractions, halls would go dark and audiences would be eroded for the remaining lower-profile events, the majority of which require subsidy.

Many promoters have gone bankrupt recently: Gesser Enterprises and Premier Concerts, both major national promoters. Each of the halls represented here was doing up to 30 presentations a year with these promoters. It would be imprudent for any one of these facilities to go it alone on a major promotion and risk public moneys.

We are going to air a little bit of dirty linen and give you some examples of our losses which have been mitigated by shared risk. Charlie Cutts of the O'Keefe Centre has a recent example that you will recognize.

Mr. Cutts: In July 1986, we presented Dream Girls, which was a Tony award-winning musical. The total risk on that attraction for three weeks was \$1,471,000. In other words, if we had sold no tickets, we would have lost \$1.4 million. As it was, we sold just under \$1.4 million and our loss was \$70,000. We had a 50-50 copromotion with a private entrepreneur and our share of the loss was \$35,000 over the three weeks. If the 10 per cent tax had been levied and we kept the ticket prices constant, our losses on the same gross ticket sales would have been 200 per cent larger.

Mr. Shaw: In addition, Brian McCurdy from Thunder Bay has an example that will help you.

Mr. McCurdy: One of our examples with respect to copromotions is that with the possible introduction of this tax, we have had a freeze on several contracts we had negotiated as copromotions. For instance, we had a contract to bring in major country artists, Reba McEntire and Dwight Yokoom. When the person we were to copresent with heard of the tax, he said he would not agree to the contract if the tax went through.

09:20

Hon. Mr. Nixon: What was the proposed ticket cost for that?

Mr. McCurdy: It was \$18. The same thing would apply to a contract on a date that he is holding for Charley Pride in September. This is a promoter who has brought us all our major country acts in Thunder Bay in the past year on a copromotion basis.

Mr. Shaw: Finally, in a completely different kind of example, Bob Johnston from the National Ballet of Canada has an example of a three-way promotion.

Mr. Johnston: The example I want to give is in connection with a co-sponsorship that we did last year involving the Stuttgart Ballet which is one of the other five or 10 major ballet companies in the world of which group we are a part.

We brought them here for a couple of good reasons. One is that they are one of the best ballet companies in the world and we want to develop our audience. One of the ways is doing it is for people to see other ballet companies and be able to compare our standards with theirs and recognize that our own company is one of the best in the world. That is the way to do it.

We copresented them with the O'Keefe Centre. We did not make a profit on it. We had a small loss on it. We charged a top price of \$37.50. We were pushing it about as hard as we could. Had we to pay a 10 per cent tax on that, between us we probably would have lost another \$17,000 on the engagement.

Hon. Mr. Nixon: Your perception of the fall-off is that precise, is it?

Mr. Johnston: I only say that because I know what the gross was. It would have cost us another 10 per cent if this amendment was in force. It would have been 10 per cent of our gross, which was \$170,000.

Hon. Mr. Nixon: I see what you mean.

Mr. Johnston: If I could just say a couple of more general words, and you have been very patient with us, I am also an immediate past president of the Canadian Association of Professional Dance Organizations, which represents the 11 major classical ballet and contemporary dance companies in Canada. We have some of the best dance companies in the world here in Canada. Many of the smaller companies that you might not be as familiar with--companies like Toronto Dance Theatre and Robert Desrosiers--sometimes, as is often the case in Canada, are more regarded abroad than they are at home.

In the dance community it is absolutely essential that we tour. Without that we would not have anything approaching full employment, and some of that touring has to be outside Canada. In order to acquire such engagements, we must be able to offer reciprocity and bring the foreign companies here in exchange.

That gets us two things. It gets us the engagements abroad of which I have spoken. Also--and I think the National Arts Centre could speak about this--it permits the dance organizations in Canada to create subscription series and put together attractions that are a mix of foreign companies and Canadian companies. Very often, the foreign companies are an important factor in the appeal to the public in buying the series.

A good example is the series of the Premiere Dance Theatre at Harbourfront which is mainly a contemporary dance company. The Canadian companies--six of the 11 I speak of are in Ontario--that perform at Premiere Dance Theatre would have a very difficult time getting engagements there if there were not also foreign companies coming in to fill out the subscription series. Although this tax will not apply to our own attraction, it will apply when we sponsor foreign companies and that will be a serious difficulty for us.

You have asked some questions about price sensitivity. It is a difficult thing to prove exactly, but I can tell you this: In our experience, we have increased our prices in the past five or six years at about twice the rate of inflation, so we are pressing our luck. We have had to do that partly because, for very understandable reasons, government subsidies have been constrained to our organization--straight-lined for three years in the case of the Canada Council. We had to try to make it up at the box office but there is a limit.

This amendment would hurt us. It seems ironic to us that a charitable organization such as ours, which is tax exempt in other ways, would now find itself paying taxes for attractions that are essential to our wellbeing.

Hon. Mr. Nixon: It is a very important submission but there are so many very high-revenue foreign performers. You have mentioned some of them here: Michael Jackson's victory tour was tax exempt; Bruce Springsteen's tour was tax exempt; Evita was exempt, as has been mentioned, since the cast was performing in a hall that is designated as a charitable organization; Rodney Dangerfield; the Everly Brothers; Joan Baez; David Copperfield, etc.

This has brought this on. It seems that people are prepared to pay almost anything to go and hear these international stars. But we have a responsibility to assist cultural organizations as well. For example, the ballet is looking for \$40 million for a new theatre. We do not intend to pay for it, or any part of it, from this. For those people to come in and take those loads of money out of the country, without tax, seems inappropriate however, particularly when, if they performed at Maple Leaf Gardens or

somewhere else, they would have to pay the tax. The reason they go to those places is that it is more comfortable and more appropriate.

Coproductions are advantageous, obviously, because they are tax free. That means the revenues of the province suffer and we have not only the inequities that this creates, but the inability to support cultural events from our point of view. For example, Bruce Springsteen is probably the most classic case. It is tax free and it does not make sense.

For us to say, "If it is the Stuttgart Ballet, perhaps we can do something about that" is one thing, but to write a law that says if it is ballet, it is exempt, or to leave it to the discretion of the minister, which is the way it used to be, is totally inappropriate. The Premier (Mr. Peterson) and some others like to go and watch wrestling matches. There are people who ask, "What is culture?" We felt that in this amendment, it was appropriate to deal across the board with the non-Canadian entertainers who command substantial markets here.

Mr. Johnston: I do not think I am the right one to answer this question, although I will make one comment which goes to our relationship with the O'Keefe Centre. The other attractions at the O'Keefe are very much part of the O'Keefe's wellbeing. If the theatre did not have the ability to have these other attractions, it would be hurt and, in turn, our rent would probably be raised. It would affect us in that way.

Hon. Mr. Nixon: It is not as evident to us as it is to the manager of the O'Keefe that the 10 per cent tax is going to be injurious to Dream Girls. That is a matter of judgement for you people to make and it must be extremely tough and risky to make it, but that is your responsibility, not mine.

Mr. Chairman: I must cut this off. I apologize to members of the committee, but you will understand that it is important in a situation like this for some rapport to be going back and forth between the witnesses and the Treasurer. We do have a tight schedule. I have three very quick questions from Mrs. Marland, Mr. Foulds and Mr. Ferraro.

Mr. Shaw: I have one more point to finish with.

Mrs. Marland: My question is on one of your--

Mr. Chairman: Perhaps, Mr. Shaw, you can very quickly make your point.

Mr. Shaw: It is to pick up on some of the comments that have been made already. The government of Ontario provided capital funding, and to impose a tax on the use of the hall is a contradiction of the original intent. The reaction to the tax will be smaller audiences, less funding generated for our local shows, which is the issue we are dealing with right now about profits on some of the higher attractions, and more dark nights in a facility built with the intention of being open for the enjoyment of the citizens of Ontario. We cannot overemphasize the cross-subsidy issue from these more profitable shows.

Hon. Mr. Nixon: To interrupt for a moment, the thesis there in the letters is correct, but it was the federal government that said you were charitable organizations. Until that time, the tax was collectable. We are trying to return it to the status before the federal government decided that

the O'Keefe Centre was a charitable organization. We had nothing to do with that. We are trying to put it back on the same position of equity as prevailed previously.

Mr. Shaw: Mr. McCurdy from Thunder Bay has a very specific comment with respect to that.

Mr. McCurdy: On the question of cross-subsidization, we have to generate about \$2,500 profit from any event that goes in the auditorium, be that rent or a profit from a show. For community groups, including the Thunder Bay Symphony, which does approximately 40 concerts a year, we charge \$600 rent. That means we have to make up from profits on the shows we present the difference of \$1,900.

09:30

Mr. Chairman: What grant does the city give you?

Mr. McCurdy: The city gives us a subsidy equal to about 18 per cent of our operating budget.

Mr. Shaw: With respect to capital funding when you were building the hall, however, was there not some question about your status?

Mr. McCurdy: Yes. We received a \$6-million provincial grant to build our building. It was a long process to get approval, and we had an Ontario Municipal Board hearing. There was a suggestion that we restructure our whole board to qualify as a nonprofit corporation so we would be eligible for these tax exemptions. That was one of the key issues for approval of constructing that building.

Mr. Shaw: We had a building built on the basis of it being able to have that exemption, and now it will not be viable when the exemption is pulled away.

Hon. Mr. Nixon: That is right.

Mrs. Marland: Mr. Chairman, can you advise me of the process you plan to use to conduct the meeting this morning? Are we going to go through all the deputations as listed? Are we going to have a lot of interjections and opinions during that process or are we going to have straight questions to the deputants?

Mr. Chairman: I am trying to do something of everything. It is important that there be some rapport and conversation back and forth between the Treasurer and the deputants.

Hon. Mr. Nixon: I will try to stop interjecting.

Mr. Chairman: A number of the members of the committee are expecting that if the Treasurer is going to change his mind on some of these things, that will obviously affect the committee's views.

Mrs. Marland: That is fine. I am only asking so that I will have your direction and know what to expect. I am not questioning the Treasurer's right to do more than ask questions.

Mr. Cutts, when you have these copromotions, is it always 50-50? Do you

have a choice? Are there some shows in which you simply do not have a choice in the copromotion agreement because the other promoter has certain rights to the show?

Mr. Cutts: We always have a choice in what we present. We are risking taxpayers' dollars. Remember, our bottom line goes to the corporation of Metropolitan Toronto, the taxpayers. We are very careful about what we copresent. We go into shows with an expectation of profit or, at least, coming out even. For example, we thought the Stuttgart Ballet had a reasonable chance of making money in an effort to help out our principal tenant. We risked money, along with the National Ballet of Canada and a private promoter. That one was a three-way promotion, and we all lost money.

Mrs. Marland: I was not questioning your decision to take the risk. I was questioning whether you have a choice.

Mr. Cutts: We have a choice in most of the things we do.

Mrs. Marland: Are there certain shows you could not have unless it was a copromotion because there are certain rights to the other promoter?

Mr. Cutts: The answer to that is yes. If we did not make the deal, there are other halls and facilities in Metropolitan Toronto that would be anxious to make the deal with a promoter. It is a competitive marketplace.

Mrs. Marland: I see. If there is a certain production or presentation that comes with its own promotion, you do not have a choice of dealing directly with them. It is like dealing through an agent. Is that it?

Mr. Cutts: Many of the tours across Canada are locked in by a promoter or by a company with whom they have done business before. For instance, the Canadian Opera Company and the National Ballet will promote other attractions as well as promoting their own attractions.

Mrs. Marland: Through the difficulties you have had in the past five years, do you see an impact from the electronic home entertainment modes on your live presentations? Is that something that impedes your ability to increase your ticket prices?

Mr. Cutts: Our industry is extremely fragile. We are subject to all kinds of pressures, not the least of which is the burgeoning number of seats available in Metropolitan Toronto. Competition from other sources is a factor. It is difficult to pinpoint how much videocassette recorders, home entertainment or the resurgence of going to dinner as a whole evening's entertainment impacts upon our industry.

Mr. Ferraro: Or watching question period in the afternoon.

Mr. Foulds: I do not think we are providing much competition.

I have a couple of questions. Let me start with a comment, because I find myself in some of the same dilemmas the Treasurer does.

Mr. Chairman: Very quickly though, please.

Mr. Foulds: Okay. One of my private passions is baseball, and I can get a first-rate ticket for \$8.50. My other private passions is theatre, and it costs me at least \$27 to get a decent ticket at Stratford or the O'Keefe

Centre. I understand you have a problem. What I do not understand is why a 10 per cent increase on tax threatens your whole industry.

Mr. Butler: I would like to answer that. Your \$8 baseball ticket will probably be \$13 this year, because the baseball industry in Canada faces a lot of the same market threats we do, such as the exchange on American funds. If we absorb the 10 per cent increase within existing prices, in many cases it exaggerates the loss for us. A loss of \$20,000 becomes a loss of \$27,000.

Mr. Foulds: What if you increase the prices by 10 per cent?

Mr. Butler: As I have indicated, whereas before we could present orchestras for \$30 or your \$8 for the sport, we are now losing audiences at \$39. If I change that to \$43 by adding a 10 per cent tax, I predict a serious loss of audience. Ultimately, those shows will simply not take place.

If I may continue on the copromotion idea, I would not want people to think that copromotions are simply a way of diverting public dollars to private sector profits. Copromotions are an important part of the programming at Roy Thomson Hall and Massey Hall. In most years, we do about 15 or 20 copromotions. Some of those lose money. They lose money for us and our commercial partners.

The net profits overall help to keep our corporation out of the public purse. We take no public dollars right now and never have for 92 years. It is our intention to stay that way. Copromotions and commercial presentations with the benefit of tax exemption are some of the ways in which we keep ourselves solvent through earned revenue. We see this as a serious threat to that earned revenue.

Mr. McCurdy: We probably earn 70 per cent of our revenue on season ticket sales. It is very important to us. It creates our stable base of audience. When we start adding 10 per cent on top of a \$100 subscription and we also factor in inflation, with our decreased municipal support, we want to put on an additional five per cent or six per cent just to keep even with where we were last year.

Hon. Mr. Nixon: Are your subscriptions all non-Canadian?

Mr. McCurdy: No. It is a mixture, which is another complicating factor. We do about 60 per cent foreign versus 40 per cent Canadian. However, all of a sudden a couple buying two subscription packages are faced with a \$30 increase, which could be a major stumbling point in renewals.

Mr. Foulds: Is there a possibility of the Treasurer or someone making a definition of a nonprofit organization for the purposes of this tax, as opposed to charitable organization status, which comes originally from the federal government?

Hon. Mr. Nixon: We had that status. Perhaps with the exception of Thunder Bay, the O'Keefe Centre and so on normally paid what was the historic entertainment tax. The federal designation removed that. It made those places very attractive for foreign entertainers. They would go there if they could or to Exhibition Stadium, if they could command that size of audience.

We have really tried to come to grips with the separation. One of the points was to return to where the Minister of Revenue is sort of a culture

czar, saying, "That is okay and that is not," which, of course, I cannot do. I do not think my successors should do it and I do not think my predecessors should have attempted it. The dislocation in the extreme is where Bruce Springsteen, who they tell me is a marvellous performer, went out of here with one huge chunk of dough.

09:40

Mr. McCurdy: It is my understanding that he performed at the Canadian National Exhibition grandstand. I do not know whether it was during the CNE, but Hulk Hogan, who walked out with a similar type of profit, would still be tax exempt under this.

Hon. Mr. Nixon: That is correct. I would be delighted if somebody would fix that as well.

Mr. Foulds: The other question I had was why a private entrepreneur had to bring in the Berliner Ensemble.

Mr. Chairman: I do not know whether that is relevant to Bill 26. Is it?

Mr. Foulds: If one of the arguments is that coproductions, which are commercial productions, should be tax exempt, it is pertinent.

Mr. Chairman: Let us hear the answer.

Mr. Shaw: That private entrepreneur gets tax exemption now and appeals for it in those types of situations. I mentioned that with regard to the Royal Alex, for example, on Kismet for which the Canadian Opera Company got exemptions.

Mr. Foulds: Did he get it for--

Mr. Shaw: He did not apply for that in this case, or it was not addressed in time, and he would like to see that type of opportunity, especially with Canadian productions. It is perfectly justified, but there is a dynamic in the industry that has to do with lead times when facilities are available and that has a lot to do with the venue and the co-host.

Mr. Cutts: Perhaps I can respond now to the Berliner Ensemble question. The last time the Royal Ballet from Britain appeared in Toronto, it was at the O'Keefe Centre. It was a risk of the magnitude of about \$700,000 to present that for one week. O'Keefe Centre was the only organization that sponsored that attraction, and it was through profits that we had already maintained throughout the rest of the year that we took the risk.

To break even on that presentation was 95 per cent. There was the tax exemption. We lost money on the presentation as it turned out, but we did that in co-operation with the marketing support of the National Ballet of Canada. We do take risks on huge, what is called, classical or esoteric presentations because no one else will.

Mr. Chairman: Mr. Ferraro, is your question valid?

Mr. Ferraro: Yes. It is brief. The presenter made a point of mentioning that two promoters went broke or ceased to be in existence. Is there a shortage of either commercial or professional promotion companies or private entrepreneurs or corporations that want to get involved in promotions?

Mr. Shaw: Some of the managers may want to respond to that, but promotion in the performing arts is an extremely high-risk entrepreneurial activity and has the same problems most other very high-risk entrepreneurial things do. Unlike the recording industry, for example, in which when you get a hit your upside potential grows, here your upside potential growth is the number of seats you have in the house, and then it is cut off. In most cases, that upside potential is less than 10 per cent. The downside potential is your whole box office, your whole cost structure. Does anybody else have an example?

Mr. Cutts: Perhaps I can make a comment. Two of the largest promoters across Canada are Jim Skarratt and Concert Productions International. I do not think it is any secret that each one of them are affiliated in an equity sense with a major brewery. The reason is that they were both in a cash flow sense close to bankruptcy, or they simply did not have the funds to carry on. It is our understanding that an equity position has been taken by each brewery into each of the major promotion companies.

It is an extremely risky business. All of us do business or have done in business in the past with Skarratt Promotions and CPI and all their affiliates across Canada.

Mr. Ferraro: Essentially, we are talking about going in and trying to make a buck, and there is nothing wrong with that. The motive seems to be switching now to getting corporations that do it as a type of promotion for beer or whatever the hell it is they market. Does that seem to be the drift?

Mr. Cutts: There are a variety of reasons. The fact that a private entrepreneur who was in it for himself had to take on a huge partner for cash flow reasons is germane to the issue as well. It is a fragile industry. If you are risking half a million dollars a week and you go wrong, you can lose a lot of money quickly.

Mr. Chairman: Do you want to add to that, Mr. Walker?

Mr. Walker: Yes. The cost-subsidy issue becomes more and more a key in that, and I can only give you an example. We also did Joan Rivers two years ago, and we produced a profit on Joan Rivers of \$14,000. That \$14,000 went directly towards us sponsoring a local opera deal in doing a production that they had in our building. To us, that is the key issue in the regional markets out in Kitchener-Waterloo. We need a profit generation from the commercial event so we can continue with our sponsorship of the local and Canadian events.

Mr. Chairman: Final word.

Mr. Shaw: I would like to address the business about major foreign artists taking out big fees from the country. The imposition of an admissions tax will not have any impact on the fees the artists take out of this country. Some of them may not come here so they will not take out fees, but the only people who will suffer will be our Canadian talent and our Canadian halls, period.

Mrs. Marland: Will we have an opportunity to ask these deputants questions later? If not, I have another question at this point.

Mr. Chairman: We will not have an opportunity later but we do have a very tight schedule.

Mrs. Marland: Are you going to refuse my question to these people?

Mr. Chairman: The committee agreed we would have just today and last week to hear deputations.

Mrs. Marland: Are you going to refuse my asking this deputation a question?

Mr. Chairman: Yes, I am afraid so.

Thank you very much, gentlemen. Your presentation has been very much appreciated.

Mr. Shaw: I am available to any committee member at any time.

Mr. Chairman: Mrs. Marland, perhaps you can grab Mr. Shaw in the hall.

Hon. Mr. Nixon: I want to thank you for the brief. It was very well prepared and very helpful.

Mr. Chairman: Next we have All-Way Transportation Corp. Members of the committee have already received this brief from All-Way Transportation. Mr. Carrozza has extra copies if you do not have it in front of you.

For All-Way, we have the controller, Kirk Doherty and the vice-president and general manager, Raymond Hould. Mr. Hould, do you want to start?

ALL-WAY TRANSPORTATION CORP.

Mr. Hould: As vice-president and general manager of All-Way Transportation, I submitted a brief, but I should go on record as saying I am also a director of the Ontario School Bus Operators' Association. I submitted a letter this morning to Mr. Carrozza for distribution to all members.

Mr. Chairman: That letter is on the desk of members of the committee as well.

Mr. Hould: All-Way Transportation operates vehicles under contract to the various school boards in Metropolitan Toronto. Under contract to the Toronto Transit Commission, we also transport physically and mentally handicapped adults. Under the school board contracts we transport students who attend special education programs and students who are physically and mentally retarded.

The Ontario School Bus Operators' Association represents 478 school bus operators in Ontario who operate approximately 12,000 school-purpose vehicles. That is against a total number of school-purpose vehicles of about 14,000 in the province.

I am assuming you have all read the brief we have submitted and the letter. For the purpose of discussing our concerns with respect to Bill 26, the presentation was based on the known facts we have in our records with respect to the 286 propane-powered vehicles we operate. That represents about 45 per cent of our total fleet.

Our decision to operate vehicles using alternative fuels was twofold. The first and most obvious reason was financial. Second, I feel we are responsible corporate citizens within an industry responsible for the transportation of this province's future leaders. We responded to the government's environmental and conservation programs.

00:50

We submit that the proposed change to the bill will penalize unfairly financially our company and others that have acted in good faith and converted to propane. I would like to draw your attention to schedule 1A of our submission and explain in detail what these numbers represent and how they affect us.

At the bottom of the page we have the fuel costs statistics. These are statistics we put together based on records. We took a cross-section of our vehicles that were operating with gasoline and propane and determined the number of kilometres per litre, that is, 4.2281 for gasoline and 2.4679 for propane. The average number of kilometres driven per year is approximately 18,000 per vehicle. The litres consumed per year in the case of the gasoline-powered vehicles is 4,257 and in the case of propane is 7,294.

The total cost per year for fuel per vehicle is \$1,647.54 for gasoline against \$1,531.54 for propane. The overall cost during the life of the vehicle--and we are permitted under contract to operate our vehicles for seven years--is \$11,000 for gasoline and \$10,000 for propane.

Hon. Mr. Nixon: So there is really a negligible difference.

Mr. Hould: The cost of fuel is negligible. However, if you will move to the top of the page, on our van-type school bus, which are small, 20-passenger school buses used predominantly in the urban areas--

Hon. Mr. Nixon: And for Wheel-Trans?

Mr. Hould: No, they are a larger vehicle. Those vehicles have a cost of \$45,000 to \$50,000. The van-type vehicles cost \$21,500. The cost of a propane conversion, which is what we have done with most of our vehicles except for the most recent ones we have purchased directly from Chrysler with factory conversions installed--I will admit the cost of that conversion at the factory is some \$200 less than the \$1,900 represented here. The total cost of the vehicles, including sales tax and sales tax rebates--as you can see, going across the page, we have made the comparison between our current situation and why we made the decision to go to propane from a financial standpoint as opposed to staying with the gas-powered vehicles.

During the life of the vehicle the differential between propane and gas is negligible, about \$350. However, under the proposed bill, the total vehicle cost over the life of the vehicle is better than \$1,000. It is \$1,040.

Hon. Mr. Nixon: That is a difference of \$1,000 over seven years?

Mr. Hould: Per vehicle over seven years. If you turn to schedule 3, you will see we are operating some 234 van-type, school-purpose vehicles. The cost differential to us between the current situation and the proposed Bill 26 impact is almost \$250,000.

Hon. Mr. Nixon: On the basis of \$1,000 per vehicle every seven years?

Mr. Hould: That is correct.

Hon. Mr. Nixon: There must be something good about your business.

Mr. Cordiano: You are talking about \$250,000 after seven years.

Mr. Hould: During the seven-year period. Each year we will be affected. Moreover, as the cost of the vehicle goes up--in schedule 1B we refer to wheelchair vehicles used for school purposes--the vehicle base cost is \$30,152 with the conversions and so on. Going down through the same exercise, you can see the cost differential is substantially greater.

In an effort to keep this short, I have not gone on to the more expensive, full-sized, 72-passenger buses which cost \$45,000, but the cost differential continues to escalate. It is our feeling that the proposed \$750 sales tax rebate does not in any way compensate for making a decision to continue to operate vehicles powered by alternative fuel.

Hon. Mr. Nixon: Other things being equal, do the vehicles operate the same way? Are the propane-fuelled school buses harder to start, as my neighbours say?

Mr. Hould: Failing to train the driver properly will cause the vehicle to be more difficult to start, but it is no different from an inexperienced person getting into a diesel-powered vehicle and attempting to start it.

Hon. Mr. Nixon: So you really got in on this, to begin with, in support of the government's off-oil program, and that is about it.

Mr. Hould: It was also financial. We did an analysis of it and we had been advised that the efficiency of the propane fuel would be better than we have experienced. That had an impact.

Hon. Mr. Nixon: Are overall costs lower?

Mr. Hould: We had been advised that the overall cost of operating a propane-powered vehicle would be lower than we have experienced in reality.

Hon. Mr. Nixon: We often find that in this business, too.

Mr. Hould: Our second point is that the proposed change will eliminate any incentive for businesses like our own to convert to propane. I would like to address for a moment the subject of the Wheel-Trans system. We are currently looking at a new type of vehicle to transport the physically disabled during the off-peaks in an effort to reduce the overall costs and provide more service when it is required, during the peak operating hours.

We have had conversations with the Ministry of Energy with respect to that vehicle and converting it to propane during the test period to test its efficiency as a propane-powered vehicle. Based on our costs of running propane under the proposed bill, there is very little incentive for us to continue with the work in that regard. The increased cost will be passed on to the boards of education and to the TTC which themselves are subsidized by the government. It strikes me that it is rather a big circle but it all comes out of one pocket and goes into another and back again.

We do not feel it is a good move from a financial standpoint of the boards and the transit commission. Obviously, the use of gasoline is going to lead to increased air pollution in the urban areas, and as I mentioned earlier, the proposed bill contradicts efforts of the Ministry of the Environment, the Ministry of Energy and the Ministry of Natural Resources to encourage higher environmental standards and energy efficiency.

10:00

Mr. Chairman: Thank you very much, Mr. Hould. I have questions from Mr. Haggerty and then Mr. Ferraro.

Mr. Haggerty: I would like to direct a question to the witness this morning. In your fuel cost statistics, you mention the kilometres per litre were 4.2281 and 2.467 for propane. Does this include any road tax?

Mr. Hould: This includes our actual cost of fuel at 38.7 cents a litre and 21 cents a litre. We have our own fuelling facilities; so these are the actual net costs to us.

Mr. Haggerty: That is the delivered price.

Mr. Hould: I believe it is called the tank wagon price.

Hon. Mr. Nixon: Tax would be included?

Mr. Hould: Yes.

Mr. Haggerty: Is there tax on propane too?

Hon. Mr. Nixon: No.

Mr. Haggerty: Only on gasoline and diesel. That is included in that cost?

Mr. Hould: Yes, sir.

Mr. Ferraro: I have two questions. First, what proportion--perhaps it is all--of All-Way Transportation's business is with government-financed organizations such as school boards?

Mr. Hould: One hundred per cent.

Mr. Ferraro: My second question has to do with schedule 3 in particular. I am trying to understand it. One can argue--most notably, my wife--that I do not wake up until 11 o'clock. However, when I look at your distinctions between the purchase of vehicles and the lease of vehicles--and there is an obvious distinction in price--I think something is missing. Are the interest costs missing? Are the maintenance costs for the leased vehicles included? Can you not get bank financing? Otherwise, why would you lease? Something is missing.

Mr. Hould: It is a question of cash flow more than anything else. For example, the requirement in 1985 at school startup was to acquire in excess of 100 vehicles in our fleet. At a cost of approximately \$20,000 a vehicle, that was in excess of \$2 million. It is a question of cash flow.

Mr. Ferraro: The facts, as presented, are accurate?

Mr. Hould: Right.

Mr. Ferraro: If you had the bucks, you would rather buy this vehicle.

Mr. Foulds: I have two quick questions. First, does the schedule of costs as you have outlined them under Bill 26 take into account any rebate you might receive?

Mr. Hould: Yes, sir. If you will turn to schedule 1-A, you will see that in our calculation we have shown a provincial sales tax rebate of \$750. The \$39,199 is net.

Mr. Foulds: That carries through on all your calculations with the other types of vehicles and so on?

Mr. Hould: Yes, it does.

Mr. Foulds: The next question is of ministry staff. Do you have any breakdown of the number of propane vehicles that are privately owned and how many are fleet-owned? Do you have any reading of that?

Mr. Williams: There are approximately 2,500 vehicles.

Mr. Foulds: We are talking about a total of 2,500 vehicles, and we do not know the breakdown in terms of individually owned vehicles.

Hon. Mr. Nixon: You are talking about bus vehicles.

Mr. Foulds: No. Total propane vehicles. This tax will affect all vehicles.

Mr. Williams: That is right.

Mr. Foulds: It is 2,500 vehicles in total, and we do not know the proportion of privately owned versus fleet-owned. Is there any way we could find that out?

Mr. Russell: We could probably make some estimates.

Mr. Foulds: Could you do that for me when we get to clause-by-clause consideration?

Mr. Russell: Yes.

Mr. Chairman: Thank you very much, gentlemen. Your figures, in particular, are going to be of some real assistance.

Mr. Hould: Thank you.

Mr. Chairman: We have the Retail Council of Canada, represented by Alasdair McKichan, president, and Gerald Doucet, senior vice-president. Welcome, gentlemen.

RETAIL COUNCIL OF CANADA

Mr. McKichan: Gerald Doucet, our senior vice-president of policy, is on my right.

Mr. Chairman: Do you have a submission we can distribute while you are running through it with us?

Mr. McKichan: We sent it to you yesterday by courier.

Mr. Chairman: Perhaps because of the prices and everything, the courier company could not get here. Do you have a letter from Purolator?

Mr. Foulds: I will bet it is in Sudbury.

Mr. Chairman: Apparently, we do not have enough copies, but Mr. Carrozza is getting some more made.

Mr. McKichan: I am sorry about that.

Mr. Chairman: Carry on, in any event.

Mr. McKichan: Thank you. Our comments will be relatively brief. I will digest them as much as I can. I shall not dwell on the makeup of the Retail Council of Canada and its membership. Suffice it to say that our members represent about 75 per cent of total store sales made in the province, through more than 6,000 outlets from one end of the province to the other.

We do not quarrel with any of the purposes of Bill 26. Our member companies welcome the simplification of the application of the sales tax for prepared food products and the clarification of the application of the tax to service and maintenance contracts that provide for the future delivery of parts and labour. We are very appreciative of that.

The two substantive points we wish to make are in relation to, first, the collection of tax on out-of-province sales to Ontario residents and, second, the timing of the introduction of changes in the tax policy affecting retail sales tax.

With respect to the first item, the amendments to section 8 of the bill regarding the authority of the minister to exchange information with taxing authorities in jurisdictions outside Canada on a reciprocal basis raise an important question regarding jurisdictions within Canada and the exchange of information in that situation.

We have been in discussion for some time with the Ministry of Revenue on the problem of sales made outside the province for delivery into the province. In some cases, retailers are registered vendors in both provinces, but such retailers often compete with retailers who make a sale in another province for delivery into Ontario but are not themselves registered vendors in Ontario. There is no question that the individual resident of Ontario is responsible for the payment of a tax, but the uneven policing of the phenomenon of out-of-province sales has created what our members view as an extremely inequitable and to some extent legally questionable situation.

The best solution is to have reciprocal provincial agreements that would allow for the collection and exchange of sales information for such sales among taxing authorities in jurisdictions within Canada. For many years, retailers have operated on the understanding that such an exchange of information, particularly between Ontario and Quebec, where the problem is most significant by a long way, was well established and that Ontario and Quebec vendors should record all details of transactions to substantiate tax-exempt sales involving out-of-province deliveries and to allow the inspection of these records by the tax collection officials of the provinces that are reciprocally involved.

We have had recent discussions with Ministry of Revenue officials--and we understand they are to be confirmed by letter--to the effect that retroactive assessments that have been made for the past several years will be negated where registered vendors in Ontario have followed the long-standing practice of collecting and providing sales data on out-of-province sales to Ontario residents. However, as of July 1, this machinery will be set aside and the registered vendor will be held responsible for collecting that tax. While

we are pleased that the retroactivity problem appears to have been resolved--and our members who were concerned were acting under actual directions from the Ministry of Revenue--we continue to believe that there is a legal question about the ultimate responsibility for collection of such taxes. Some companies may wish to pursue that legal challenge.

10:10

The philosophy that individuals in receipt of deliveries for purchases they have made outside the province are liable for the Ontario sales tax on those items, and that the vendor is in essence the agent of the Ministry of Revenue to be guided by the ministry in the practices of collection, seems, if that policy were to be adopted, to have been eroded. One particular location is the Ottawa-Hull area, which is by far the hot spot for this problem, although it also exists right along the Ottawa Valley and to some extent in the Cornwall area and probably along the Ontario-Manitoba border, although the size--

Hon. Mr. Nixon: It is not quite the same thing.

Mr. McKichan: There is not nearly the same acuteness of the problem.

Mr. Foulds: For the individuals concerned, there certainly is.

Mr. McKichan: Yes. I agree with that.

Hon. Mr. Nixon: You cannot drive into Manitoba and buy beer in the grocery store.

Mr. Foulds: It is more expensive when I get there anyway.

Mr. Ashe: That is because it is in the corner store.

Mr. Foulds: No. It is not.

Hon. Mr. Nixon: He means it is more expensive.

Mr. Ashe: It would make it even more expensive.

Mr. Chairman: Carry on.

Mr. McKichan: What is more, in particular locations, such as the Ottawa-Hull area, some retailers who are not registered vendors in both provinces have followed the practice of vigorously advertising that they will not charge sales tax on large purchases delivered outside the province. As a result, they have gained sales at the expense of Ontario-based and registered companies, which affects both Ontario operations, employment and the profitability of the merchants concerned.

The exclusive focus for tax collection and reporting on Ontario-registered vendors only is an inequitable and ineffective solution that must be addressed. It is clearly in the interest of all provinces to address out-of-province sales by both registered and unregistered vendors. In recent discussions with Ministry of Revenue officials, we have been assured this matter will be addressed at the next federal-provincial meeting of ministers of revenue later this year. We encourage that to go forward.

In the meantime, we believe it is not appropriate to look to the

registered vendors to be collectors of tax from out-of-province residents. First, it is a doubtful legal proposition in our view, and second, in the light of what prevails in other provinces, it is not realistic or fair.

Mr. Chairman: That is a very interesting point, and it is not one we have been concerning ourselves with up until now. Are there any comments or questions?

Mr. Ashe: I will comment, just to pass it over to the minister and his staff. I concur that putting a legal obligation on a Hull vendor to collect Ontario sales tax is highly unlikely, legally, constitutionally or even by agreement.

One thing that might be secured by agreement is something to do with all copies of delivery slips outside of the province on a reciprocal basis to be negotiated. Then there is no collection responsibility per se, but there is the transmittal of delivery slips. Surely that is of benefit to all jurisdictions, particularly the two in question. The onus is on the government, but there is some negotiated responsibility by the two governments, or the several governments, but the two principally in question.

Mr. Doucet: There is still in existence a direction from the ministry dated June 1967. It is not a regulation but a notice to vendors that requires or directs vendors making out-of-province sales to persons not resident in Ontario that they must maintain the following information in their files: the name and address of the purchaser, the point of delivery, the sales price and the voucher substantiating out-of-province delivery. There is a note that failure to maintain these records will result in the vendor becoming liable for the tax he should have collected.

I would question the applicability or legality of that last sentence, but the direction, it seems to me, is not unreasonable.

Mr. Chairman: Any comment from ministry official?

Mr. Williams: The guidelines about which Mr. McKichan is speaking at the moment were negated by changes in legislation in 1982. At that time, a vendor could in fact refuse to, or if he got a refusal to pay the tax, he needed only provide us with the name and address and description of the goods and so on and we would have gone after the purchaser. However, we found that was being abused and was not practical, not from the retail council's point, but in other cases.

Legislation was changed which then did away with, in our opinion, those old guidelines. Now it became the responsibility of the vendor who holds a permit in a particular province to collect the tax of that province when delivery is made in that province.

Mr. Ashe: That is not the issue. It is going to expand to another province and reciprocally when somebody in Quebec delivers something into Ottawa and it is sold by Quebec then.

Mr. Ferraro: He is talking about a directive.

Mr. Sholtack: Mr. Ashe, the issue is that we are dealing with Ontario vendors who sell to Ontario consumers but deliver from an out-of-province store; that is the difficulty.

Mr. Ashe: That is part of it, but surely it is just the same as the

truck crossing the Chaudière bridge between Ottawa and Hull and vice versa; it is going in both directions. I can appreciate that it is a slightly different problem because it is definitely subverting the Retail Sales Tax Act to just take delivery from another branch.

That is part of the problem but not the big part. The big part is--again in Ottawa and Hull--the Hull merchant saying: "Come on over here and buy it. We will delivery it to you, Ottawa purchaser. We will not charge you sales tax, period." That is delivering from point A, the point of sale in Quebec, to point B, the purchaser's residence, presumably, or place of business in Ontario, in Ottawa.

Mr. McKichan: That in effect is the main substance of our complaint, coupled with the fact that we think it is unfair to rely on the Ontario operations of a company to exert, as it were, a double standard between that company and the company that is exclusively resident outside Ontario. It is a capricious result.

Mr. Doucet: The reason it is relevant to raise this is that section 8 of this bill talks about the situation of jurisdictions outside Canada, with Ontario, where you are trying to apply just that solution. In fact, as I understand it, Ontario has registered vendors in Scotland.

Through section 8, for example, Marks and Spencer in Europe or in England would provide data to the Ontario Ministry of Revenue on purchases made in England that an Ontario person was bringing back to Canada. I presume that type of information would be exchanged. Yet we have seen a shift in the ministry's philosophy with respect to interprovincial sales. That is why we have raised it today.

Hon. Mr. Nixon: The thought of having a better exchange of information with Quebec particularly is a very useful one. There is a lot of exchange now, but I think it is somewhat uneven. Perhaps on the basis of a better agreement or a better understanding on both sides it could be improved. This bill gives us the power to make agreements with outside jurisdictions. Particularly we have in mind the various states where this is happening to some extent. Your point is well taken; perhaps an improvement with our reporting relationship with Quebec is very much needed.

Mr. McKichan: The bleeding of business into Quebec, simply for the sake of escaping sales tax, is of a very substantial dimension. It is something that should alert both the Treasury and the government as a whole, because it is not only a question of tax collection, it is also a question of fairness to Ontario businesses. That is significant.

10:20

Mr. McKichan: I believe we should stress also we are delighted with the apparent decision to negate the retroactivity of these assessments, because it represents substantial amounts of money for the firms but not a lot of money to the Treasury in total, as I understand it.

Hon. Mr. Nixon: Everything is a lot.

Mr. Ashe: Not the way you spend it.

Mr. McKichan: For individual firms, it is an important amount of money. We want to recognize that if we get this letter saying the

retroactivity has been set aside, we are at least half pleased.

Mr. Foulds: That is better than most people receive.

Mr. Chairman: Mr. Foulds, a final comment or question.

Mr. Foulds: I am intrigued by your example of Marks and Spencer in Britain.

Mr. McKichan: I do not believe actually it is Marks and Spencer; I believe it is a vendor of Scottish regalia who does considerable business with pipe bands and so on in Ontario.

Mr. Doucet: I was not suggesting the Scottish example was Marks and Spencer, but section 8 could apply to a jurisdiction such as England and a company that is doing business both in England and in Ontario might collect this type of information and make it available to the Ontario Revenue ministry.

Mr. Foulds: How would they know if you go into a Marks and Spencer store in northern England, as I do, and buy a pair of shoes?

Mr. Ferraro: Union made?

Mr. McKichan: Only if you had it delivered.

Mr. Chairman: Or if you tried to exempt yourself from any tourist tax.

Interjection: Or from British value added tax.

Mr. Foulds: I would get a better deal paying seven per cent Ontario tax than I would the value added tax in Britain.

Mr. Chairman: Thank you very much, gentlemen. This has been a very interesting presentation. As I said, it is a point that, to my knowledge, we had not considered.

We now have a large group representing the Ontario Committee of the Propane Gas Association of Canada Inc. Mr. Carrozza is distributing their brief as they get ready. As I understand it, you will have use of the overhead projection. On behalf of the Propane Gas Association of Canada Inc., we have Jim Battle, the present chairman of the the Ontario committee, Glen Kavanaugh, Simon Wauchop, Tim Macdonald and Mel Patterson.

PROPANE GAS ASSOCIATION OF CANADA INC.
(ONTARIO COMMITTEE)

Mr. Patterson: I am the spokesman. Mr. Battle is not present.

Dr. Wauchop will be making our presentation from overheads in a moment. I would like to spend a couple of minutes and introduce the subject of tax rebate on propane vehicles. It is specifically subsection 1(2) that deals with the revision of the act to limit the sales tax rebate on propane vehicles to \$750. As you know, the current tax act provides for a full seven per cent rebate on the capital cost of the vehicle and that is the issue we want to address this morning.

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We are here on behalf of the Ontario Committee of the Propane Gas

Association of Canada to talk to you about the merits of retaining a larger share of the original sales tax exemption on propane powered vehicles. As you know, this has been and currently is seven per cent of the capital cost of the vehicle. The Bill 26 proposal is to limit the maximum rebate to \$750 for propane vehicles and \$1,000 for vehicles converted to the use of other alternative fuels, the most notable of which is natural gas.

A key goal of the propane industry is to create a self-sustaining market without the aid of tax incentives. That is our objective. We have made that statement to both the ministries of Energy and Treasury but before the industry can achieve a critical mass and become self-sustaining in the auto propane segment, a substantial pool of converted vehicles must exist.

Any premature changes to tax policy that decrease the size of this potential market lessen the chance of achieving this objective. Without a sufficient population of propane vehicles, the primary market infrastructure cannot be supported in the long term, and the replacement market volume will be less than adequate to support an original equipment manufacturing program.

Businessmen are very payback oriented. It is a simple calculation to determine the effect on payback of a change in capital cost of the equipment. The reduction in the sales tax rebate will have the effect of increasing the distance the vehicle must travel in order to provide a return on investment. If this payback is too great--measured in months or years--the owner simply will not make the investment. That is our concern.

The industry is already facing a difficult challenge in this regard because of the narrowing of the retail price differential between gasoline and propane. A second major concern we have is that the government's action could be perceived as reducing its support for propane and favouring that for gas vehicles which, according to the amendments, would command a rebate of \$1,000 as compared with \$750 on propane. While we know that such a bias is not intended, we are concerned about public perception.

Hon. Mr. Nixon: Is that conversion? The conversion is more expensive, is it not?

Mr. Patterson: It is. It is also more heavily subsidized.

These are the matters we want to discuss with you today. At this point, I would like to turn the presentation over to Dr. Wauchop, who has some slides and a text prepared for this morning's meeting.

Dr. Wauchop: We welcome the opportunity to discuss the proposed changes to the sales tax law in Bill 26 and how those changes will affect the auto propane industry and consumers of auto propane.

Our submission will follow the structure as shown here. We will deal basically with an outline of the propane industry, the purpose of today's presentation, a little bit of history about auto propane, what auto propane means to Ontario, the environmental benefits of auto propane and the sensitivity of the market price to the tax changes. We will conclude with some recommendations.

By way of background, I would like to look at the propane industry in Ontario. We provide service to some 80,000 to 100,000 constituents, not including large numbers of consumers who operate propane barbecues. Propane is a clean, portable fuel that can provide economical service to localities not

currently served by natural gas. It can also be used in situations such as mines where oil products require costly environmental controls. As a result, propane has found a very important place in Ontario's resource industries.

Propane is a unique fuel in that it is the only portable, clean, high-density fuel available to a lot of consumers. For many consumers, particularly in the north and in rural areas, it provides properties similar to natural gas, away from the natural gas mains. Historically, it has served a traditional load such as domestic heating, agriculture, mining and specialty loads such as brick kilns, asphalt, plants and construction industries.

The purpose of our visit today is to familiarize the committee with the auto propane industry and to present our case for modification of the changes in the sales tax laws affecting auto propane vehicles included in Bill 26.

10:30

The growth of the auto propane industry from virtually nothing in 1979 to an estimated 276 million litres in 1985 is an excellent example of government-industry co-operation. In the newly deregulated energy environment, we urge continued support for off-oil alternatives from all levels of government, particularly from the provincial government.

In Ontario, propane continues to be the best short-term to medium-term alternative to gasoline and is the only alternative where industry has responded to the incentives by constructing a widespread retail infrastructure.

Currently, gasoline prices have declined following the decline in crude oil prices, but recent moves within the Organization of Petroleum Exporting Countries, especially by the hard-line states of Lybya and Iran, supported by Saudi Arabia following the recent changes at the head of its oil ministry, could lead to upward price movement in the future. To protect against oil supply disruptions, the government of Ontario should keep objectives put in place in the early 1980s.

One of these objectives was to achieve 10 per cent penetration of the gasoline market by alternative fuels by 1995. To date, these fuels, mainly propane, have achieved a penetration of 1.3 per cent. The investment in propane and alternative fuels contributes to energy self-sufficiency within Canada and helps the balance of payments in the country. It will also protect us against price shocks and supply disruptions in the future. Actions by governments today will dampen the next price increase when it comes.

In response to the initiatives by the government of Ontario, the propane industry has made large investments in auto propane and a continuation of tax remissions will allow the industry to earn a reasonable rate of return on these investments. We propose to outline today the economic and environmental importance of auto propane and urge the committee to modify the proposed upper limit on sales tax rebates for auto propane powered vehicles.

To make you fully aware of the history of the incentives, I would like to review them briefly.

In the late 1970s, the government of Ontario introduced incentives to encourage the development of alternative transportation fuels, including propane. The incentives for propane are summarized on this graph. The effect of the incentives and the investment by industry has resulted in increased sales of auto propane to 267 million litres, as I indicated earlier.

Propane inroads into the gasoline industry have reduced demand for gasoline by 1.3 per cent, and continued activity by the industry should increase this to three per cent by 1990. As a result, we have a growing industry which should be allowed to complete the job given to it by government in the early part of this decade.

What does auto propane mean to Ontario? First, it helps improve the balance of trade. The demand for crude oil in Canada will continue to be a drain on Canada's energy trade balance. This is especially true as exploration activity for new reserves has dropped dramatically since the wellhead price for oil declined early this year. Even though Canada is currently a net exporter of crude oil, the use of propane in Canada to free up higher-valued crude for export improves our balance of trade. It makes economic sense to export those energy forms that fetch a higher return per unit of energy, such as electricity or crude oil, and retain those with a lower per unit of energy value, such as propane and natural gas, for use within the country. Such a policy would obviously help the value of the Canadian dollar and reduce pressures on interest rates to move up.

Second, the use of auto propane reduces the overall energy cost bill for Ontario. In 1985, using the typical differentials between gasoline and propane, we estimate the total cost of energy was reduced by approximately \$60 million in this province. As a consequence, the cash flow of auto propane users has increased by this amount and at least a portion of this has resulted in improved profits for companies opting for propane in their fleets. Although it is difficult to estimate the total effect of the improvement in profits, this would obviously result in increased corporate taxes paid to both the Ontario and federal governments.

Auto propane also results in improved distribution efficiency. Propane distributors face seasonal loads in their traditional markets and have had much lower load factors than other energy retailers, including natural gas and electrical utilities. Auto propane provides the propane industry with an opportunity to improve the overall load factor and, therefore, the possibility that it could improve the efficiency of the transportation and distribution system, to the benefit of all propane users. Without this base load, this would be very difficult.

Finally, and certainly not the least, the propane industry has created a significant number of jobs as a result of this initiative. As a result of this development, jobs have been created in each of these segments. In the past few years, some 60,000 vehicles have been converted to propane in Ontario. If the cost of these conversions is assumed to be \$1,400 per vehicle, \$84 million has been spent. Using Statistics Canada data, this would result in 5,600 man-years of direct work. If this is spread over the five years since the program began, it means that 1,120 jobs have been created in Ontario by conversions.

During 1984, the total bill for auto propane was \$71.8 million. Again using the Statistics Canada model, this would result in an additional 130 jobs in the production, refining and distribution of propane. If this demand for energy had been met from increased oil imports or from reducing oil exports, the jobs would not have resulted in this province.

Therefore, a minimum of 1,650 direct jobs have been created, and projected growth in the industry will add to this. Although the multiplier is unknown, a number of indirect jobs have also been created. This is at least 1,500, bringing the potential reduction in unemployment as a result of this industry to 3,100.

Environmental benefits also arise from this program. On February 1, 1985, the Prime Minister stated that Canada must put its own house in order before it can expect the United States to listen to it on the question of acid rain.

Part of a program being considered by the federal government includes the tightening of emission standards for automobiles at a cost of at least \$1 billion. New emission standards in California control rigidly the use of diesel vehicles within that state and it is possible similar standards could be spread throughout North America.

The propane industry has begun a research program in conjunction with the Ministry of Energy and the Ministry of Transportation and Communications and the Ontario Research Foundation to convert diesel-powered vehicles to propane. If this program is successful, additional jobs could be created within the province, and Ontario would become a world leader in alternative-fuel-powered vehicles for emission control.

I would now like to touch briefly on the sensitivity of the marketplace to the proposed sales tax changes. In this graph we show an idealized distribution of the vehicle fleet in Canada; that is, the number of vehicles as a function of annual fuel use. Auto propane economics depend on the net cost of conversion and the annual saving in the operating cost.

As was indicated earlier, payback is the key to marketing a conversion to propane. The proposed tax change in the auto propane industry effectively increases the conversion cost and lengthens the payback time. The size of the auto propane market is very sensitive to this change. The rebate reduction increases the annual fuel usage required to be economical by at least 1,000 litres.

That means our target market is effectively reduced, and I can illustrate that clearly in this slide. The magnitude of the reduction depends upon the threshold volume for economic conversion. For example, between 6,000 and 7,000 litres, the potential percentage of fleet that could be converted is reduced from 12.1 per cent to 7.1.

10:40

Mr. Foulds: I am sorry. I do not understand that. Could you go through that again?

Dr. Wauchop: If you look at the red line, at annual consumption of 6,000 litres, the potential marketplace that could be converted economically is 12.1 per cent.

Mr. Patterson: Can you point that out on the slide so we can understand how to read the chart?

Dr. Wauchop: All right. If you move up here from 6,000, that is 12.1 per cent. If you increase that volume to 7,000, the line comes down to 7.1 per cent.

Mr. Patterson: Reading on the vertical axis?

Dr. Wauchop: Yes, reading along this percentage.

Mr. Foulds: I am sorry; I still do not understand the slide. Let us take the extreme left-hand side.

Dr. Wauchop: One hundred per cent of the fleet uses more than zero litres.

Mr. Patterson: Are you talking about 100 per cent of all the vehicles in the country?

Dr. Wauchop: Yes. As you move down, you have a profile of how the consumption--

Mr. Foulds: All right. So very few vehicles use more than--

Dr. Wauchop: Ten thousand.

Mr. Foulds: Ten thousand?

Dr. Wauchop: Those are small. There are taxis out in there, but they are a very small percentage.

Moving now to recommendations, auto propane remains in the provincial interest for economic and environmental reasons that I have outlined. The auto propane industry has reacted positively to the government initiatives taken at the beginning of the 1980s and has begun the job of converting a significant portion of the vehicle fleet off gasoline.

Of all the energy programs introduced in Ontario following the energy crisis of the mid- and late 1970s, the auto propane program was among the most successful. Now is not the time to undermine this program, as the job begun by the industry needs ongoing support by government and certainly does not need to appear to be losing interest by government.

As our customers have indicated to us, if the initiatives are significantly modified, they will convert back to the traditional fuels. We urge the Ontario government and this committee to continue the support in a visible way and to send a clear message to the marketplace about such support. We do not expect such support to last for ever, but we do believe we are well on the way to becoming self-sustaining. This is supported by the automobile manufacturers, who have indicated they would supply propane-powered vehicles as a low-cost option once the demand reaches twice the current level. Such growth would be difficult if the sales tax changes contemplated in the bill were implemented.

The industry urges the committee to place auto propane on the same basis as natural gas; that is, to increase the sales tax rebate on auto propane conversions to \$1,000. As Mr. Patterson indicated earlier, natural gas already receives additional subsidies that propane does not have. We also urge an increase in the rebate on commercial vehicles to the lesser of the sales tax paid or the cost of conversion of the vehicle. The cost of this recommendation to the Treasury would be offset by increased revenues from the industry and its employees through income tax.

Ladies and gentlemen, thank you very much. We are now open to questions.

Mr. Chairman: Thank you very much.

Mr. Cordiano: I have two very brief questions. What is the availability of supply? How much supply of propane is there? Is it that accessible?

Mr. Patterson: Supply is not a problem. Canada exports about 50 per cent of the propane it produces. There is sufficient supply to handle the job we are addressing. It is highly available throughout Canada and certainly in Ontario.

Mr. Cordiano: It is available and accessible, but to power the same--I am looking at this schedule that was given to us by the previous presenter.

Mr. Patterson: The energy comparison to gasoline?

Mr. Cordiano: Yes. There is no comparison. We have to use twice as much fuel to do the same thing.

Mr. Patterson: You would use more. I would have to look at those figures to--

Mr. Cordiano: I am looking at All-Way Transportation's brief. I do not know whether you were here before. Its figures show that to power a vehicle for 18,000 kilometres per year, gasoline required was 4,257 litres per year and propane was 7,294. Those are the actual figures that were given to us.

Mr. Patterson: That is on a particular engine. Again, I cannot comment without analysing the data and looking at the consumption. Our rule of thumb and our experience is that the consumption of propane is that one would use approximately 20 per cent more propane than gasoline or one would get 20 per cent less mileage.

Mr. Cordiano: I asked the first question about the availability of supply with regard to the fact that we do use more propane than gasoline. I do not know whether that is an inevitability.

Mr. Patterson: It is because of the energy content. The energy content of propane is lower than that of gasoline. Therefore, to get the same amount of power, one would have to use a greater volume of propane.

Mr. Cordiano: You do not perceive the cost to have that availability of propane exceeding what your expectations might be for the next little while; that is, the cost per litre to the consumer?

Mr. Patterson: The cost per litre to the consumer today is equitable in terms of the job that is being done. However, you heard a consumer here who said he was looking for other incentives to continue with the propane programs. Therefore, we are saying that some important incentives in place today are allowing this industry to function.

The retail cost of the fuel is equitable in terms of the job that is being done and in comparison with other energies, but support mechanisms are still required to keep this industry intact. Until such time as we can reach a population of vehicles that allows us to sustain ourselves--

Hon. Mr. Nixon: What is that?

Mr. Patterson: We think it is approximately double what it is today.

Hon. Mr. Nixon: Five thousand.

Mr. Patterson: No. There are 160,000 vehicles in Canada on propane, and probably 40 per cent of those are in Ontario. We are saying that when we get to a figure--

Mr. Cordiano: Are those largely commercial fleets?

Mr. Patterson: Those are mainly commercial fleets and taxicabs.

When we get to a Canadian population figure of about 300,000, we will be at the point of being able to be self-sustaining.

Hon. Mr. Nixon: That would be about 140,000 in Ontario?

Mr. Patterson: On that ratio, yes.

At that point, the manufacturers will be interested in the product, the propane option, and will develop a factory program that will be comparable in price to gasoline and other energies. When they do that, we will be home-free; we will be free of all the ties to subsidies. Today, however, a propane option from the factory costs more than gasoline, and people are reluctant to pay more money to be on propane for a whole bunch of reasons. We are struggling with a new industry.

By the way, people in the industry and users believe we have done a very commendable job in the five years we have been in the business, to have brought this industry from nothing to what it is today. It is well supported by our users and by the people in the business. We are spending a lot of money to develop this industry.

10:50

Mr. Cordiano: Without government support, you would not be able to continue.

Mr. Patterson: You are right.

Mr. Cordiano: If you do not reach your market level of vehicles using propane, you will have to have continued government support into the future to survive.

Mr. Patterson: Ideally, we will continue to have government support for another three to five years.

Mr. Cordiano: What I mean by that is the tax exemption.

Mr. Patterson: As some form of subsidy.

Mr. Cordiano: A retail sales tax as a form of subsidy or whatever.

Mr. Patterson: You have to understand that this industry started because of government incentives. We would never have been in the business, because we would not have had any customers. The initiatives were brought down, the industry responded by doing certain things, users responded by getting involved in using the product, and now we are talking about prematurely removing those supports. It is too soon to do that.

In co-operation with the government, we have created an industry that requires supports, and will for some few years.

Mr. Foulds: I put the question basically as a devil's advocate, because the Treasurer put the question to me when I was arguing on second reading of this bill: What is the problem with removing the sales tax exemption and getting a rebate?

Mr. Patterson: There is no problem with the rebate system. However, today the exemption is the full seven per cent of the capital cost of the vehicle. Our user groups are buying vehicles that run anywhere from \$14,000 or \$15,000 up to \$30,000. We heard someone here this morning talk about a \$40,000 school bus. Today, the exemption is seven per cent of the full cost; for a \$20,000 vehicle, that is \$1,400.

This bill proposes to change that to an exemption--that is not a problem--and to reduce that from \$1,400 to \$750, which is off the top; it is the upfront cost of the unit. When someone sits down to analyse this investment opportunity, that is a very substantial amount of money.

Mr. Foulds: However, from your point of view, cash flow is not a problem. When you have a tax exemption, the buyer, whether it is a fleet or an individual, does not have to put the money up front. When you have a tax rebate, he does, and he gets it later from the government.

Mr. Patterson: He gets it back.

Mr. Foulds: From your point of view, that would not be a problem?

Mr. Patterson: Right.

Mr. Foulds: It is the capping that is the problem?

Mr. Patterson: Right.

Mr. Foulds: I can understand the Treasurer's search for revenue, because there are probably programs that need to be financed. Would the capping be acceptable to you on a phased-in basis for the next five years, when you estimate you would be self-sufficient?

Mr. Patterson: My answer to that is yes, and as a group, I would think we would answer in the affirmative to that question. But what are we talking about? I presume the budget is going to come down each year; so there is an opportunity to phase in a program on an annual basis or whatever.

Mr. Foulds: Right now, you would not want to see this on the rebate. You would want the rebate based on the full--

Mr. Patterson: No. We are proposing an alternative to what is being proposed; that is, first, a rebate that is equivalent to that being given on natural gas vehicles. We do not think the government wants to show a bias, and we think that is bad for the public perception if it does. It suggests there may be a withdrawal of support for propane, and I do not think that is intended. That is the first point.

The second point is, on commercial vehicles--and let us face it, 95 per cent of the conversions are on commercial vehicles--we suggest that the rebate be the lesser of the conversion cost or seven per cent of the capital cost of the vehicle.

Therefore, recognizing that a businessman will have to pay more money for a propane vehicle, if he can recover the additional cost of conversion through a rebate, that at least gets him to the point of breaking even on the original cost of the vehicle.

Mr. Ferraro: I have a quick supplementary. I want to ask the gentleman whether he knows--and I think he has partly answered it--what

percentage of the volume would be less than \$750, if any, if you took the flat seven per cent?

Mr. Patterson: None.

Mr. Ferraro: Zip. Thank you.

Mr. Ashe: Have you any idea approximately how much of the propane now used in Ontario is refined in Ontario? Do you have any ideas on that?

Mr. Wauchop: I do not have the number off the top of my head, but a substantial portion of it is produced at the refineries in the Sarnia area and in Oakville. Propane is also transported here through the Cochin pipeline. There is some coming from Alberta as well.

Mr. Ashe: Is it already refined?

Mr. Wauchop: It has to be re-refined once it arrives here.

Mr. Ashe: That is an important consideration for Ontario. I knew what your answer was going to be, though not in specific terms, but I thought it was important to get it on the record.

Mr. Patterson: The answer is that there is a huge industry in Sarnia which supports what we are doing. We have primarily refinery products in this province.

Mr. Ashe: In looking at the current retail industry for auto propane at the moment, there seems to be a bigger percentage variation in the retail price than even in the competitive market of gasoline. Can you answer that?

Some people are saying, "I have this service here, and I am not doing a huge volume in it; so whoever has to buy it is going to pay through the nose." The guy who does have a bigger volume potential in his immediate area says, "I am willing to take a normal markup." I am talking in cents per litre now, because it is considerably less to start with. In percentage terms, the variation, even within the relatively same geographical areas, is significant.

Mr. Patterson: You are saying there is a larger price variation from location to location on propane than there is on gasoline?

Mr. Ashe: That is right. Even in a relatively small geographical area.

Mr. Patterson: Are you comparing auto propane retail outlets with auto propane retail outlets?

Mr. Ashe: Yes.

Mr. Patterson: Or are you comparing those to cylinder gas?

Mr. Ashe: No, auto retail.

Mr. Patterson: With regard to retail price variations of propane in the city today, you can probably see prices anywhere from 21 cents to 25 cents--about a four-cent differential--across Metro Toronto.

Mr. Ashe: In percentage terms, that is about seven cents a litre in gasoline.

Mr. Patterson: The difference is that the oil industry deals in cents per litre, not percentages. A four-cent differential in the price of propane from one location to another is interpreted by the industry or people who use fuel as being four cents per litre whether it be in propane or gasoline. A comparison is made.

You are right; there is a difference on a percentage basis, but on a cents-per-litre basis it is similar. That is the way the industry thinks. That is the mentality of the industry.

Mr. Ashe: I do not think you have answered the question. It is even greater than that. I saw some auto propane yesterday--not a week ago or a month ago--at 18.9 cents a litre.

Mr. Patterson: Available for retail?

Mr. Ashe: Yes. It was not here; it was in Ottawa. I was surprised, frankly. Normally, the Ottawa prices for gasoline--as you know, it is principally delivered from another source--run anywhere from one cent to three cents a litre higher than in the Metro Toronto market.

Mr. Patterson: It is a very competitive marketplace, believe me, at the retail level. That is why you see that differential.

Mr. Ashe: Is there a significant difference in the wholesale price depending on the nature of the outlet?

Mr. Patterson: No. The wholesale price is the same. No matter where you buy the product at Sarnia, you pay the same price, within a fraction of a cent.

Mr. Ashe: It is free on board Sarnia?

Mr. Patterson: It is f.o.b. Sarnia.

Mr. Ashe: Potentially, it gets a little more expensive as you move farther away from Sarnia?

Mr. Patterson: Of course, because there is a heavy cost of transportation in this industry.

Mr. Ashe: Ottawa is farther from Sarnia than Toronto.

Mr. Patterson: It is much farther; so you pay more.

Mr. Ashe: But the price there is less.

Mr. Patterson: I know the price is less, but the industry is very competitive. There is obviously a price war in Ottawa. The retailers are fighting with one another, which is why the price is down where it is.

Mr. Ashe: Is there a significant industry in Ottawa as compared to the Toronto market? Again, I appreciate we are talking about a much smaller community and service area.

11:00

Mr. Ashe: Is there a significant industry in Ottawa compared to the Toronto market? I appreciate that we are talking about a much smaller community and service area.

Mr. Patterson: On a relative basis, measured on the scale of the city, yes, it is a large industry in Ottawa. There are a lot of outlets. There are a lot of options for a user. One can buy propane at probably 20 or 25 different places in the city of Ottawa. On a comparable basis, the industry is just as large there as in Toronto.

Mr. Chairman: What is the wholesale price in Sarnia?

Mr. Patterson: It is around nine cents right now. Ask me in five weeks and it will be three cents higher than it is today. The wholesale price is--

Mr. Macdonald: I think we have had 40 or 50 changes this year.

Mr. Ashe: It is quite volatile then, to say the least.

Mr. Patterson: It is very volatile.

Mr. Chairman: I see Mr. Ferraro's and Mr. Foulds' hands. However, I also see the hands of the clock. Is that all right.

Mr. Foulds: I just want to know how many propane-powered vehicles there are north of the French River.

Mr. Ashe: Three.

Mr. Foulds: What is the geographic distribution? Are most of them in Toronto, Ottawa and Sarnia?

Mr. Macdonald: There are propane-powered vehicles across the whole province. I would say the majority of the market is in the Toronto area and in Ottawa. I do not think anybody really knows what the distribution is north of the French River. The population is less north of the French River than it is south of it. I know we sell a fair bit of auto propane north of the French River. In terms of the number of vehicles, I cannot tell you.

Mr. Patterson: But it is not uncommon for a truck to be on auto propane in northern Ontario.

Mr. Chairman: To be out of propane.

Mr. Foulds: There used to be a big sign by Geraldton, "No gas for 300 miles."

Mr. Chairman: Thank you very much, gentlemen. It has been very informative.

We now have the Ontario Public School Trustees' Association; Mrs. Morrow. Perhaps the members of the association can identify themselves. The clerk can distribute the presentation and perhaps you can lead us through it quickly. We are trying to stay on a tight schedule.

ONTARIO PUBLIC SCHOOL TRUSTEES' ASSOCIATION

Mrs. Morrow: Mr. Chairman and members of the committee, I would like to introduce the people I have with me. On my right is the past president of the Ontario Public School Trustees' Association, Mrs. Marilyn Rowe, and on my left is Rill Phillips, the executive director of our association.

The Ontario Public School Trustees' Association represents 52 school boards and boards of education from all parts of Ontario. We are pleased to have this opportunity today to make a presentation to the standing committee on finance and economic affairs.

Bill 26, An Act to amend the Retail Sales Tax Act, proposes to change the Retail Sales Tax Act to provide certain tax concessions to various industries, including farming, trucking, manufacturing, universities and restaurants. Universities will be exempted from sales tax on all equipment purchases exclusively used for research. However, the bill does not provide any sales tax concessions for Ontario school boards.

I am sure you are aware that until May 1982, when then Treasurer Frank Miller presented his budget, school boards were exempt from sales tax on classroom supplies, student supplies and materials, and materials incorporated into buildings and structures owned by school boards. The loss of this exemption has placed an unfair financial burden on school boards and the local ratepayers. The retail sales tax on school supplies and services has resulted in the need either to increase the local tax revenues or to reduce the amount of supplies and services that the school board purchases.

It has been calculated that approximately 10 per cent of a school board's overall budget is spent on educational supplies and is therefore subject to the seven per cent sales tax. Given a province-wide educational budget of \$7.5 billion, sales tax payments by school boards represent approximately \$50 million annually. This figure does not include the costs incurred with building a new school in which building materials are also subject to the seven per cent sales tax. For boards in high-growth areas, the additional cost represents a substantial portion of the budget for a new school.

School boards are seriously restricted with regard to revenue sources. The two principal sources are municipal taxes and provincial transfer payments. Most boards in Ontario are currently spending above the grant ceilings provided by the ministry, and these additional costs, including the sales tax, must be borne by the local ratepayers. This constitutes a significant additional burden on the local tax base and adversely affects the already unsatisfactory relationship of government versus local support for education.

Mr. Chairman: Mrs. Morrow, I wonder whether you can speak a little louder. Your voice is being preserved on tape and apparently there is a problem hearing you.

Mrs. Morrow: I will do my best.

We are also concerned that the sales tax on educational materials represents a form of double taxation. It results in a regressive taxation philosophy in which supplies and services for our schools are subject to provincial sales tax to increase provincial revenues in order, ultimately, to fund the partial purchase of those same commodities. The government pays

grants to school boards through one department and takes them back in sales tax through another.

We believe that concessions should be made to the school boards of this province by exempting, from the retail sales tax, supplies and equipment directly related to the educational process. Specifically, these items include classroom supplies and equipment, student supplies and machinery, and building materials and textiles purchased for use in the academic and vocational programs.

We therefore recommend that the provincial government once again exempt school boards from the seven per cent sales tax on all supplies, goods and learning aids used to provide education services, programs and instruction.

In 1983, when we lost the exemption on sales tax as a result of economic conditions in the province, we hoped it would be a temporary measure. Now that the economic condition of the province has improved, we were looking, through amendments to this act, for a reinstatement of the exemptions from sales tax. The gains that will result from a sales tax exemption far outweigh the loss in tax revenue. The education sector has produced, and will continue to produce, Ontario's most valuable resource, young people with excellent training and motivation, but the government must free up the capital that needs to be spent on training the young people in this province.

Mrs. Rowe: This is just an elaboration on what President Morrow has said. We understand that the government is in the position of looking for revenue, but the philosophy that emanates from the taxation of these items is one that we find quite unacceptable, and that is the double-taxation bind.

Our local taxpayers, 70 per cent of which do not have students in the school system at this time, are co-operative and supportive of the school system. However, when we as trustees have to sit down at budget time and pass on increasing taxes to them, we fear their co-operation will diminish. The removal of this sales tax and a return to the way it was prior to 1982 would help us to alleviate some of that local burden and to put it back in the provincial government's court, which is where we feel it should be.

Mrs. Morrow: We are prepared to answer any questions committee members might have.

Mrs. Marland: Mrs. Morrow, you refer to the burden of this tax when you talk about new school construction. You referred to that in the body of your presentation. Then when you get down to the recommendations, you include supplies, goods and learning aids used to provide educational services, programs and instruction. Should I read into your final recommendation that you are not addressing new school construction costs?

11:10

Mrs. Morrow: We would not object to having exemptions expanded beyond what they were in 1982 but our major recommendation is to reinstate the exemptions we had. I am sure we will continue to lobby to get further exemptions in the area of new school construction.

It is very difficult to educate our children with the shortage of funds in the education system. I am sure you are well aware of the crisis in capital funding in Ontario. We feel that if we can free up the seven per cent sales tax we have had to send to the provincial government and put it into the

classroom where the kids are learning, that would be a better use of the taxpayers' money.

Mrs. Marland: When you talk about new school construction you are talking about a reduction in areas other than just materials. If you get a reduction in the overall cost of the school, do you not also get a reduction in such things as architectural fees? You end up having a lower capital cost outlay.

Mrs. Morrow: Yes.

Mr. Ferraro: I have two questions, not necessarily related. Perhaps you can tell me the average percentage paid by the local taxpayer that is attributable to school taxes.

Mrs. Morrow: At present, I believe that on average it is 46 per cent funded by the provincial government.

Mr. Phillips: At one time it was as high as 60 per cent, but it has eroded fairly consistently over time.

Hon. Mr. Nixon: It is 46.25 per cent this year on the basis of the calculations the gentleman is referring to.

Mr. Ferraro: Can you tell me specifically what it has done in the past couple of years?

Mr. Ashe: It has eroded even more this year.

Mr. Ferraro: It has gone down.

Mrs. Morrow: Yes, it has been constantly going down.

Mr. Ferraro: Another question that has absolutely--

Hon. Mr. Nixon: That is because of expensive imposed salary settlements in Wellington county.

Mr. Ferraro: May I take this opportunity to invite the Treasurer to come to my riding next week to speak with various interest groups?

Hon. Mr. Nixon: I will make a speech about education costs.

Mr. Ferraro: I have another question. Do the Ontario Public School Trustees' Association or the school boards in essence have a rule promoting the purchase of supplies and materials from Canadian sources and/or Ontario sources?

Mrs. Morrow: Yes, we do.

Mr. Ferraro: What is it specifically?

Mrs. Morrow: At the present time, it is encouragement. What the association does in that regard is to encourage the member boards to look at this avenue first. It is up to the people in the school system, the educators, to decide what is best for the system. Most school boards across Ontario prefer to use Canadian products.

Mr. Ferraro: I am not sure you have this, but do you have any figures, in dollars and cents, concerning the percentage of purchases that would be non-Canadian?

Mrs. Morrow: I would not have that information. Under the current curriculum guidelines, most of the things that are used in instruction--learning materials, books and things of that nature--are required to be produced in Canada.

Mr. Foulds: In terms of the purchases the school boards make across the province, you estimate you are paying about \$50 million annually in sales tax. Is that correct?

Mrs. Morrow: Yes, that we did not have to pay prior to 1983.

Mr. Foulds: Prior to Frank Miller, and you know what happened to him. I do not know whether it was a direct result. When you plead for a sales tax exemption for school boards, would you extend that plea for the students in your schools who have to buy school supplies?

Mrs. Morrow: At the elementary level, most students should not be required to purchase their school supplies. Unfortunately, with the shortage of funds in education, that is not always the case. All the textbooks and most of the supplies and equipment at the secondary level are supplied by the boards of education. At one time, the exemption did carry to such supplies as loose-leaf paper and the notebooks that students bought for themselves in stores. There was an exemption on those items prior to 1983.

Mr. Foulds: In your view, as a representative of the educational sector and the trustees, is there anything approaching a crisis in the age of supplies you are using in your schools? Are you running on old equipment, old texts and that kind of thing?

Mrs. Morrow: Equipment is part of our lobby for capital funding at this time. Equipment is becoming outdated. Besides the buildings, the equipment in the schools needs to be updated. There is difficulty in funding supplies such as textbooks and equipment for specific courses in the schools. Because the province continually upgrades the curriculum, the requirement for different supplies and textbooks increases all the time.

The quality of the books and the learning equipment in the schools is not what it used to be and they do not have the lasting capacity they once had. The increased costs in these areas are phenomenal and the seven per cent sales tax is an extra burden to an already increasing cost factor.

Mr. Foulds: Is it a prohibitive factor?

Mrs. Morrow: Prohibitive?

Mr. Foulds: My kid in grade 7 is taking a book that I studied in grade 7 almost 40 years ago; not quite, but certainly 35 years ago.

Mr. Ashe: Ancient medieval history.

Mr. Cordiano: That explains it.

Mr. Foulds: It is a very good book. I read it again and enjoyed it.

My other son, who is in grade 9, is using texts that I would have thrown out when I was a teacher in the school system 15 years ago. They are worn out. Is the sales tax the prohibitive factor or are there other factors as well?

Mrs. Morrow: There are many factors and the sales tax is an additional burden.

Hon. Mr. Nixon: Not on books.

Mr. Ashe: There is no sales tax on books anyway.

Mrs. Morrow: It depends on what kinds of books.

Mr. Foulds: Not on textbooks.

Hon. Mr. Nixon: However, you make the point that if you have to pay it for something else, it is not available for other purposes.

Mrs. Morrow: We are concerned that the municipalities send out a tax bill for education. We would like to spend the money raised on education, rather than on sales tax.

Mr. Haggerty: I want to follow up on the comment in paragraph 2. I notice the Treasurer is not here today to defend his actions on why it was introduced back in 1982.

Hon. Mr. Nixon: Oh, that Treasurer.

Mr. Haggerty: I do not know whether the Minister of Revenue who represented the government of the day is available or not.

With respect to looking for equity in taxes, as we advance into the computer age and give certain tax concessions for research and development, I find one of the problems at local school boards is to advance young children in technology and computers. The funding is not available. In this area, perhaps you could remove the sales tax on computers in the schools. What you put in the front end, you will gain with the end result of the educational system. This is where we should have corrective measures instead of spending money in the form of educational rehabilitation programs on the ones who drop out of high school from grades 9 to 12. You should consider this move.

Mr. Chairman: All right; point taken.

Hon. Mr. Nixon: May I make a comment or two, since you do not have a list?

I am very interested in your presentation because I used to make the same argument in a previous incarnation. I can remember the argument made at the time during the debate on the budget; that is, that the exemption at the education level for sales tax was a hidden subsidy. The argument was that since there is a very elaborate and mature subsidy program already involved in the general legislative grant and other transfers, it would be better to pay the tax so that the upfront cost of education at the provincial level, plus what is paid at the municipal level, would be readily understood by the taxpayers. As I recall, that was the justification. I did not think it was very good then.

11:20

Mr. Ashe: Change it.

Hon. Mr. Nixon: I am thinking about it, but after all, we cannot do everything at once. The point you make about certain exemptions at the university level is for consistency. This bill does not increase those in any way. It changes them from refunds to exemptions, to improve the cash flow. There is basically no change on what is taxable and what is not. Your point is extremely well made and will certainly be considered. It will not be included in an amendment to this bill, I regret to say, because that would be a significant budgetary alteration, which would have to occur at the time of the budget.

Mrs. Morrow: We had hoped that while you were looking at amendments to this bill you would consider an amendment in this area. We had hoped that the loss of these exemptions was a temporary measure.

Hon. Mr. Nixon: It may be.

Mrs. Morrow: We hope it will be reinstated.

I would like to mention the classroom supplies the kids need every day to learn; the equipment for vocational courses, guidance services, students' services in the psychology departments and the commercial and business areas of our schools; the students' supplies themselves--exercise books, work books, pencils and pens--all those things; all the materials used in the shop programs. We are paying sales tax on all those things. The other area is school buses. Buses purchased for the transport of students should not have sales tax apply to them; they do now, and have had since 1983.

We add another thing to support the presentation. A lot of school buses are being converted to propane, or school buses that run on propane are being purchased. There is going to be an additional cost in that regard if they lose the exemption and get only the rebate. The proposed amendment in the bill now affects us in that area. We would like to go beyond that and have the exemptions reinstated for those areas, which affect students' education in this province. It is a concern of ours.

Hon. Mr. Nixon: That is a very useful presentation.

Mr. Chairman: The next group is the Ontario Public School Directors' Association. John Fraser, the president, is here. Do you have any copies of the presentation for us?

Mr. Fraser: I apologize to the committee for that.

Mr. Chairman: That is fair enough.

Mr. Fraser: It was rather late when I discovered that this act was being opened up for amendment, and I wanted to take the opportunity to be here. I appreciate the opportunity and I apologize for not having anything in advance.

Mr. Chairman: That is fine. Just have a seat and we will listen to your presentation.

ONTARIO PUBLIC SCHOOL DIRECTORS' ASSOCIATION

Mr. Fraser: I cannot add a great deal to what has already been said other than to underline a few of the comments made and be a little more specific perhaps in response to some of the questions raised by members of the committee.

In 1982, when the exemptions for school boards were lifted and made payable by school boards, that was transferred directly to the home owner. There was no intervening split of grants between the province and the home owner; it went 100 per cent to the local taxpayer.

As you all know, the folks out there in the community are not all that delighted with the size of the share of the tax bill dedicated to public education. Municipal councils in particular seem to take great relish in pointing out our inability to manage our fiscal affairs with the efficiency they do. At the same time, they collect taxes on our behalf, hold them, collect the interest on them and, as a matter of fact, lend money to us on taxes collected on our behalf and do not transfer the money until March.

Hon. Mr. Nixon: We would be delighted to give you the whole thing and have you look after it.

Mr. Fraser: We would not mind collecting the taxes.

Hon. Mr. Nixon: You are not a trustee.

Mr. Fraser: No. I am a director of education.

Hon. Mr. Nixon: Everybody is delighted at the way you participate in the system as well.

Mr. Fraser: Thank you very much. I am the director of education for the region of Peel and also the president of the newly formed Ontario Public School Directors' Association.

I have a breakdown on the sales tax estimated for this year. On consumable supplies it will run to \$465,000; on new and replacement equipment, more than \$90,000; on rentals and contractual fees, about \$80,000; and on capital projects out of current funds, in the order of \$210,000.

We have had a very aggressive year in terms of new construction. In that regard I can only estimate, but I expect the costs would be somewhere in the order of \$300,000 to \$400,000 in sales tax collected on supplies and materials used in the new construction projects in our jurisdiction.

Interjection.

Mr. Fraser: That is just in the region of Peel alone. The trustees' association gave you an estimate of provincial turnaround on this rather circular process of sales tax, grants and money taken from the home owner.

Concerning pressures brought on school boards from the provincial government, recently we changed the way in which secondary school graduation diplomas were to be offered through Ontario Schools, Intermediate and Senior Divisions. Our textbook supply is virtually nil in terms of all the new courses there are. They have to be redone, and that is extremely expensive. Our science labs are way behind. In our school system we have almost 30

secondary schools. Only our newest schools have science labs that are up to date. As an example, to refurbish one science lab costs \$80,000.

Hon. Mr. Nixon: Would you say the teachers are probably the best paid in Canada?

Mr. Fraser: I would say our teachers are probably among the best paid in the world.

Hon. Mr. Nixon: Good point.

Mr. Fraser: I want to thank the provincial government that brought us Bill 100, which saw to it that these negotiations have gone along as well as they have.

A primary task force came out recently with recommendations that all school boards go into junior kindergartens. In our school system that would mean the addition of something like 120 portable classrooms, plus the other costs and so on.

You are all aware that the school system is a very expensive thing to operate. We were very disappointed when the Minister of Revenue and Treasurer of the day decided to take the exemptions away from school boards. In our jurisdiction we will be paying well over \$1 million in retail sales tax, from which we feel we should be exempted. I appreciate what the Treasurer has said about that not being an amendment in this bill, but I hope that when this matter is being considered in the future, along with the recommendations of the Macdonald commission report, all sources of revenue and costs to school boards will be examined in a fair and objective light. We stand to gain nothing other than to relieve the home owner in terms of this. It will not affect our costs substantially, but it will relieve the burden somewhat on the local taxpayer.

In any event, I want to go on the record as saying that the directors of this province are concerned about the way in which the costs of education are perceived as much as anything else and endeavour to let you be aware that we are concerned about that. Anything you can do in the future will certainly be appreciated.

That is really all I have to say.

Mrs. Marland: Mr. Fraser, did you say that the directors' association is a new association?

Mr. Fraser: Relatively new, yes.

Mrs. Marland: Is it five years old or the last couple of years--

Mr. Fraser: I am the second chairman of the group.

Mrs. Marland: Have you, as a group, approached either the Ministry of Treasury and Economics or the Ministry of Education to express your concerns in this particular area, or are you just now responding to this?

Mr. Fraser: The retail sales tax?

Mrs. Marland: Yes.

Mr. Fraser: I just became aware of this last Friday, so the answer right now is no. I would prefer to address matters of financing education in a more global sense, taking a look at the whole thing rather than at the components.

Mrs. Marland: That is my next question. Having been a trustee, I understand the trustees' responsibility in dealing with the budget ultimately, but would you see any value in the Ontario Public School Directors' Association, as the administrators of the system, being part of a group that met on a regular basis with the Ministry of Education, and perhaps also with the Treasurer, to try to tackle the problem of the cost of education? As you just mentioned, we are now into a new era that places an additional burden on the system in terms of curriculum materials. Could that kind of thing be addressed if you had an ongoing meeting relationship with the ministries before these decisions were made?

11:30

Mr. Fraser: It is always helpful to get advance warning when any changes are being contemplated. The directors, along with other associations in the education field, have not had any problem in getting the ear of the Minister of Education (Mr. Conway). There have been ongoing meetings of a fairly regular sort. I understand that, with the openness of government, the Treasurer is going to entertain opportunities to interact with the various effective groups before the budget is brought down. I hope our group will be recognized as one that can make some contribution in that regard as well. The answer generally to your question is yes.

Mrs. Marland: The point is that you did not know about this change.

Mr. Fraser: Our association has no--

Hon. Mr. Nixon: What change? The change to tax school supplies, the one that took place in 1982? There is nothing in this bill dealing with schools, so we welcome the intervention, but the amendments do not deal with that.

Mrs. Marland: No; I mean the opportunity to deal with it. They did not know about Bill 26.

Mr. Fraser: I am reluctant to assign any responsibility for that. Our association has no structure; it has no head board; it has no offices. It has a group of volunteers.

Mr. Chairman: I think Mr. Fraser simply indicates he was not personally aware of the issue.

Mr. Fraser: I was not personally aware of it.

Mr. Chairman: Although the bill was tabled on May 13 and this committee advertised--

Hon. Mr. Nixon: You are the director for Peel?

Mr. Fraser: I am.

Mr. Chairman: --in major newspapers, including those in Peel.

Mrs. Marland: I know the point of the Treasurer's question. Even if the directors' association does not have an office, the Ontario Public School Trustees' Association has one; so there is a vehicle.

Hon. Mr. Nixon: In this fairly new organization--and you are in your second year as the principal spokesman--do you get leave of absence for this responsibility?

Mr. Fraser: No. We are a group of volunteers who do what we can with the time at our disposal. There is a certain amount of flexibility in our role description, as you probably are aware, that allows us to work early in the morning and late at night.

Mr. Foulds: We have that kind of job description as well.

Mr. Chairman: Mr. Fraser, we appreciate your coming in and adding your voice to the concern that perhaps the tax could be changed in this area.

Is Martin Amber present? Mr. Amber has submitted exhibit 9, which has been distributed. He also indicated he was going to make a personal presentation. Perhaps we can call him again a little later to be certain he is not here.

Jim McMillan is here from Fair Play Crusaders. Mr. McMillan, welcome. You have also given us some material that was distributed to members of the committee a few minutes ago.

Mr. Ashe: How are your feet? Are they back in shape?

FAIR PLAY CRUSADERS

Mr. McMillan: I am back in shape, Mr. Ashe. You remember four years ago when I attacked you and Mr. Miller. Where are the three Liberals who were here attacking you at the same time and applauding our attack on you? Is that not right, sir? Where is Mr. Reid?

Mr. Chairman: Perhaps you can have a seat, sir.

Mr. McMillan: Thank you. Mr. Chairman, Mr. Ashe, Mr. Nixon--the man I have come to address.

Mr. Ferraro: Does that mean the others can leave?

Mr. McMillan: Yes, and I am thankful there are some nice ladies--there were ladies. There is one lady.

Mr. Ferraro: We are dismissed then.

Mr. McMillan: I have two reasons for being here. One is that when I read Bill 26, I came across a funny little problem. It bothers me because it says in Bill 26 under clause 1(4)(d), "any contract for the service, maintenance or warranty of tangible personal property." The explanation is just inside the cover. It does not explain anything to the normal consumer. The normal consumer receives his extended warranty, just as I did from Eaton's, and it is already taxed. What are you going to tax on top of that? That is just a question I want answered because that was a separate thing. Can you tell me what you are going to tax?

Hon. Mr. Nixon: We do not like double taxation, but everything you buy is doubly taxed. The government of Canada has a wholesale tax of about 11 or 12 per cent, and our retail tax of seven per cent goes on top of that. It is regrettable, but we are separate jurisdictions and have separate funding requirements.

Mr. McMillan: But you are charging two taxes. The provincial government is charging a tax on top of a tax. This has already been taxed since 1982.

Hon. Mr. Nixon: We will look at it.

Mr. McMillan: I want that checked out because that does not make sense. I manage a company, and I like to charge only one tax.

I am the chairman of Fair Play Crusaders. We represent three distinct groups, number one being the seniors, whom I am surrounded by on Greenwood Avenue. I have 2,200 units of senior citizens at Greenwood Towers. I have an 800-unit apartment practically beside me on Greenwood Avenue at Felstead, across from the TTC marshalling yards. I also represent a second group, which is the working poor. The third group, which has no spokesman--and you have not heard a spokesman for this group this morning--is the young people.

These are the people who pay the food tax. These are the people I attacked George Ashe and Mr. Miller about. Right, Mr. Ashe? He remembers it.

Mr. Chairman: He is still suffering.

Mr. McMillan: It was in 1982. The only people who eat at McDonald's continually are those three groups. The yuppies are eating at all the little places around. I found it very hard when I found Mr. Conway, Mr. Reid and Mr. Roy saying the tax was wrong. They represented your party, Mr. Nixon.

Hon. Mr. Nixon: That is why we are taking it off.

Mr. McMillan: Oh no, you are not taking it off.

Hon. Mr. Nixon: For a minute there, I thought we were.

Mr. McMillan: If \$6 and under was wrong in 1982, \$6 and under is wrong in 1986.

Mr. Ashe: Not \$1 or \$2.

Mr. McMillan: That is right. I ask you to do the thing, be the man and I will show you a way you can take back and not be short of money in your tax.

You had Mr. McKichan here, a very nice man and president of the Retail Council of Canada, but he did not give you the answer. I have been a salesman and now I am a sales manager; I know how you can stop the problem.

Any goods that are delivered outside the province should have a separate bill with an extra sheet at the bottom. Eaton's will do it, my company will do it and any company will do it. When you fill out the sheet with the "no tax if delivered outside the province," it is torn off and sent to a department in that province. It needs only a clerk. There is no need for those moneys to run into problems.

I sit in the thing and see that happening all the time. I say: "What a foolish thing. What a waste of time." All we need is that extra piece of paper on the bottom; that paper is ripped off by your demand. You will reap as much money as you are taking out of the pockets of young children, senior citizens and the working poor. They are people who go to McDonald's, Burger King and the places where these things are done.

I guarantee you will reap it. I am not attacking you; I am here to give you information.

You see here--I am sorry; I would rather stand. I feel more comfortable standing, please.

Hon. Mr. Nixon: Okay. We have one of those.

Mr. McMillan: You have it before you. This was two years ago. It says, "On \$225 a month." We took the Star reporters around and showed them how to shop at the wrong time, in the middle of the afternoon. The girl said, "I spend that much on myself per week." We took her around, and she nearly flipped. We showed her. This was also given to you. I am sorry this was done in 1982. We still do it for \$60 a week and feed a family of five, and they are a little older now.

Mr. Chairman: There is a problem with your standing in that your words may not be picked for the transcript. I will leave it up to you as to what you want to do.

Mr. McMillan: I am sorry. Can I use this to sit on? It makes me a little taller.

I back a lot of the things that the gentlemen speaking previous to me said, but they missed a lot of things because they are not sales people, and they do not know how to present a brief properly. To illustrate, regarding the illustrious people who were here first, from the arts, I must agree with Mr. Nixon that if you can pay \$20 to \$100 for a ticket, you can afford to pay the tax. Those who can afford only \$1 to \$5 do not have the money to pay the tax, and they should be exempt. Theirs is a luxury; the latter is not a luxury.

11:40

Only one speaker in that first group had the right to have your ear, and that was the man from the National Ballet. They have that right. The man sitting right here brought out something very beautiful, and I think he deserves your ear.

The tax should come off things that are not luxuries, such as soap and toilet tissue. They are not luxuries; they are needed. Somebody was listening when I presented that position to Mr. Ashe and Mr. Miller in 1982, because you took it off. We said it was not a luxury for a lady to have to buy sanitary pads, and you took it off in February. Be men and take it off exactly as you said you would when your representatives were in here attacking Mr. Miller and Mr. Ashe in 1982.

The All-Way people did not tell you the whole story. They left out some things they did not want to tell you, but I will tell you. All-Way is the most inexpensive transportation company in Canada and the most charitable. They almost give away their buses on Sundays to the churches so parishioners can go to church. They did not tell you that, but it is the truth.

The retail sales group said, "Get rid of the skulduggers." That is exactly what they said to you. Stop the shippers who ship stuff across the border so their customers from the other side do not have to pay the sales tax. I give you the idea; dig into it. That man over there will show you how to do it. Pass the slips from province to province; you do it, and those provinces will do it back to you. Give them the idea that we from Ontario know how to do things and that we do have the made-in-Toronto answer for northern Ontario--I will show you how to do it later, but not in this meeting.

The propane industry: I recommend not what they ask but rather a 90 per cent rebate on replacement or conversion. Do not reduce it; expand it until we get 20 per cent of our vehicles in Ontario on propane. Then we will breathe fresh air, and we will not have any of these fumes. I want to see every TTC vehicle replaced or converted to propane. Then we will have a clear city. And you guys from the north country and from western and eastern Ontario can come down here to a pollution-free city.

Remember, propane means jobs in Toronto, and it means jobs in Sarnia. It means jobs, and jobs mean revenue for you, Bob. Right?

Hon. Mr. Nixon: Right.

Mr. McMillan: The Ontario Public School Trustees' Association, which was here two groups before me, is saying something that is true. It really sounds foolish to the consumer. You put money in one pocket and then take it back out another one. That really accomplishes nothing. If you are going to give a grant, why tax the things they are buying? Why tax the buses and these things? I ask you to take the time and think it out. Why waste all that energy, paper, time and money when we can use them for something else? Let us develop our northlands. I will tell you how to do that in another meeting.

I thank you very much for taking time for me. Those other pieces of paper show very clearly that what one family can do, every family in Ontario can do. That will bring in more money to your coffers, Bob. I know you need money to run this province, and I am with you; so is Jim Foulds, and so is George Ashe--even though he does it grudgingly, he wants this province to be the best province in Canada--as is Vince Kerrio. These people care about Ontario or they would not be here. I have seen the slamming you have taken for the past four years, Mr. Ashe. I like Mr. Ashe as a person because he is trying to do the best for Ontario; so are you, Bob.

I thank you very much, Mr. Cooke; you have the only secretary who can keep up with me jogging along the hallways of Queen's Park.

Mr. Chairman: Thank you, Mr. McMillan. Mr. Ashe has a question of you. I think he wants to get back at you.

Mr. McMillan: Okay. That is allowed.

Mr. Ashe: Never.

Mr. McMillan, you made some references to what others were supporting you on in 1982. Seeing that the shoe is now on the other foot, do you think it might be appropriate to bring chapter and verse to the attention of the Treasurer and Minister of Revenue?

Mr. McMillan: Thank you. I forgot all about that. It is sitting right here. I am sorry.

Hon. Mr. Nixon: Did George give you this?

Mr. McMillan: No. Honest, George Ashe did not give this to me. I will use a small portion and pass it on to you people afterwards. It talks about a Mr. McLennan, who was making a presentation. Mr. Roy stood up and backed Mr. McLennan's presentation to the hilt. Can I read it, or do you want to, George?

Mr. Ashe: It might be appropriate for it to be passed on to Hansard and recorded as part of the deliberations today.

Hon. Mr. Nixon: Oh, no.

Mr. McMillan: This is only an excerpt.

Mr. Ashe: Read it, and save your time.

Hon. Mr. Nixon: Wait a minute. Are you serious that you want something put in the official report that is not said here? We do not do that.

Mr. McMillan: Okay. "This is the philosophy which motivates the cynical attitude of the Ontario government." This is the Tories we are talking about.

Hon. Mr. Nixon: It sounds good so far.

Mr. McMillan: "The criteria for any tax should be based on the ability to pay. The crassness and insensitivity of this budget reflects a complete lack of understanding of the needs of the elderly. Senior citizens in Ontario are fighting for survival for the right to stay in their own homes.

"At this time of their lives, the elderly need all the help a caring and concerned society can give to them. Because of their increased frailty and limited physical capacities, the aged are particularly vulnerable. They are more subject to depression and fear. Their depression is aggravated by financial worries about increasing living costs for food, rent, clothing and utilities.

"It is ironic that a government which can afford to pay millions of dollars in swollen salary increases to affluent doctors is now reduced to scrounging from the senior citizens. What are the elderly, the unemployed and those on fixed incomes to do in the face of these increased costs for gas and hydro? Are they to freeze in the dark? Their latest concern, the Ontario taxes on items commonly used by the elderly, is the last trial which could push them over the brink.

"It is a cruel tax, and the Treasurer should consider the cumulative impact of his budget, when taken together with the other costs faced by the elderly, and should reconsider and revise this antidemocratic budget to allow for the special needs of the aged and the disabled, the 450,000 unemployed in Ontario and those on fixed incomes so as to serve the best interests of the people of Ontario."

Mr. Roy commented: "Gentlemen, may I, as one member of the committee, congratulate both of you for the excellent presentation here this evening and having taken the time to come here and express your views. I am sure the Treasurer is very pleased you have, especially in the case of--Mr. McLennan, is it?"

Mr. Chairman: That is from Hansard?

Mr. McMillan: That is right from Hansard from a committee meeting on June 30, 1982.

Mr. Ashe: Mr. McMillan, if those words were appropriate in 1982 to the then Treasurer, do you think they are as appropriate to today's Treasurer?

Mr. McMillan: Exactly.

Mr. Ashe: I think so too.

Hon. Mr. Nixon: Except for one small thing, Mr. Ashe. In those days you were removing all the exemptions from food, and this budget puts the exemptions back on up to \$2. I do not see the similarity, but maybe we can discuss this at another time.

Mr. McMillan: When was the last time you were in McDonald's?

Hon. Mr. Nixon: I eat there regularly. How do you think I got so fat?

Mr. McMillan: There is one other thing he asked for.

Hon. Mr. Nixon: I did not ask for anything more. That is good.

Mr. McMillan: He asked for it. Mr. Ashe, you wanted my excerpt now.

Mr. Chairman: Is that the small page at the top?

Mr. McMillan: I would rather pass it to you.

Mr. Chairman: Perhaps you could pass it to us.

Mr. Ashe: Mr. Chairman, there are two things I think should be on the record in the way of clarification. There are quite a few references back to 1982. I think the record should show that this took place during public hearings on the then amendments to the Retail Sales Tax Act. Both the Treasurer of the day, Mr. Miller, and the Minister of Revenue of the day, myself, were sitting there, as I recall it, morning, afternoon and night, for a full week of public hearings. As a matter of fact, some of the marks are still on my back.

Hon. Mr. Nixon: That was a tough budget; that is right.

11:50

Mr. Ashe: The other thing the Treasurer should note, as the keeper of the purse around here for members, is that I must be in that working poor group, because I also eat at McDonald's and Burger King.

Hon. Mr. Nixon: But you exercise.

Mr. Ashe: That is all I can afford.

Mr. Chairman: That would be the youth group.

Mr. Ashe: It is surely not the youth group.

Mr. Chairman: Thank you very much, Mr. McMillan. It was of extreme interest to us.

Unless Mr. Amber is here, and I presume he is not, that concludes the presentations. I would like to call upon the Minister of Revenue now to summarize his reactions to the presentations.

Mrs. Marland: do you have a point?

Mrs. Marland: What happens now? Does the Treasurer give his reactions and then we debate?

Mr. Chairman: Yes. We can debate at that time.

Mrs. Marland: I have a question of the Treasurer.

Mr. Chairman: That is fine.

Mrs. Marland: Do you want it now?

Mr. Chairman: All right.

Mrs. Marland: Earlier this morning and a number of times, the Treasurer has said--I am particularly addressing the 10 per cent amusement tax--that this is not a revenue issue.

Hon. Mr. Nixon: That is correct; it is an equity issue.

Mrs. Marland: I find the statement that it is not a revenue issue very interesting.

You also said this morning when we were discussing capital funding of theatres, as has happened in the past--and I wondered what you meant--that this was not what the Treasurer intended to use this money for.

Hon. Mr. Nixon: May I clarify that? I was bringing to the attention of the gentleman who was testifying as a representative of the Canadian Opera Company that its request for a minimum \$40-million grant from the province to build a new opera house might have a substantial effect on the revenues of the O'Keefe Centre.

I have also indicated that while this is not a revenue matter, there will be revenue implications. I said, of course, that we are not thinking of tying any possible grant to the opera house with his lack of support or otherwise for this particular amendment. They are entirely different categories.

Mrs. Marland: I understand that you said it is not what this money would be used for. My point is that, on the one hand, you are saying it is not a revenue issue; on the other hand, you are saying this money will not be used for--

Hon. Mr. Nixon: There are minor revenue implications, certainly.

Mrs. Marland: You seemed to express this morning on the issue of major attractions or acts. You were citing Bruce Springsteen, Michael Jackson and so forth as being almost detrimental because they came in and took all that money out of the country. You know quite well that they are quite heavily taxed before they leave.

Would you explain the difference, from an overall financial point of view, between those acts and an American company that does business in Ontario, employs thousands of people and, in turn, generates a lot of revenue for this province, but takes the profits back to the United States? I do not see the difference between that and the same thing happening in the theatrical world.

Speaking as the critic for Culture, I do not understand why the minister, having heard what he has heard today and knowing what he knew before today's deputation, would put at risk not only the Canadian talent scene but also our own Ontario talent scene. These theatres are telling us very clearly that the profits they earn from the big name presentations are what help them to subsidize the other productions. Therefore, it gives the public of this province a wider scope of option and variety in entertainment.

Hon. Mr. Nixon: We have a wide variety of exemptions, including any Canadian talent. There is no thought that Canadian talent would be taxed. Most of these places are operating to give a showcase opportunity to Canadian talent.

Our own feeling is that substantial inequity has developed, particularly since the government of Canada has designated a number of these theatres as charitable organizations. That is its phrase and designation, not mine. It means that theatres that paid amusement taxes until the designation no longer do so. Even before the designation they were exempt from tax for Canadian productions and a wide variety of other cultural matters, sometimes designated by the minister himself in days gone by.

We believe these changes bring equity and fairness into the system. Those people who are promoting some of the major attractions, which are mostly American but are often foreign, that can command ticket prices of \$40 and beyond and can fill any theatre, including Exhibition Stadium and Maple Leaf Gardens, would all be treated in the same way for tax purposes.

In about three minutes the bells will ring for a vote upstairs. I suggest, although I am in the hands of the committee, that we continue this on another occasion. I and the officials of the Ministry of Revenue have benefited from hearing the representations of the people from cultural groups, from the propane and natural gas industry, from the trucking industry and so on.

If it were the wish of the committee to report the bill back, we could deal with it in committee of the whole House, dealing with the material that has been put forward. I assure you we will consider all presentations with regard to any amendments honourable members may make in committee of the whole or any amendments I may want to put before the House.

Mrs. Marland: You are saying you would be willing to take it to committee of the whole.

Hon. Mr. Nixon: Certainly.

Mrs. Marland: In Mr. Nixon's answer he was suggesting that I was suggesting that we should be taxing Canadian talent. It has nothing to do with taxing or exempting Canadian talent. The point is that we will not even have Canadian talent without the subsidy these theatres are able to give through their profits on the other talent.

Hon. Mr. Nixon: I understand that point. I do not happen to agree with it as enthusiastically as you do. I know it is significant, but I am sure you are also aware that the subventions and assistance that come from the Ministry of Citizenship and Culture and other areas of municipal and provincial governments also have a role to play.

Mr. Chairman: Perhaps I can indicate that last week Mr. Ashe indicated on behalf of your party that he was anxious to hear general commentary from the minister at this point in the game before determining whether you wished to proceed clause by clause. There was also a subcommittee meeting yesterday in which Mr. McFadden represented your party and Mr. Foulds represented the New Democratic Party. The consensus was that if there was a desire for a clause-by-clause discussion of this bill, it would be preferable, in view of the fact that it is a Treasury bill, that it occur in committee of the whole so that the whole House can benefit from that discussion.

Ms. Hart: If that is the case, are you prepared to receive a motion that we report the bill back to the House?

Mr. Chairman: I am prepared to receive the motion, although if the minister has any other comments he wishes to make, it would be appropriate for him to make them before the motion.

Mr. Foulds: For the record, and if it is appropriate at this time, I would like to make one or two suggestions for the Treasurer to consider before he brings the bill back to committee of the whole.

Mr. Chairman: Yes.

Mr. Foulds: I am much struck by the conflict, particularly over the amusement tax and the equity argument. I am also much struck by the business of funding and helping to finance the arts.

There are two points I would like to make. One is that the charitable designation may not be appropriate.

Hon. Mr. Nixon: We do not make it.

Mr. Foulds: I know, but you use it in your legislation.

Hon. Mr. Nixon: It is used on us.

Mr. Foulds: Is there a way you could define in legislative terms what would be a genuine nonprofit event?

Hon. Mr. Nixon: Not before the case.

Mr. Foulds: Let me give you an example. I know that this charitable designation is abused and that there is therefore unfair competition because of the designation, partly through the cosponsorship business. That is the area where there is abuse. Just to give you a small example, the Progressive Conservative riding association in my area is bringing Tony Bennett into the community auditorium under a cosponsorship, so those tickets will be tax exempt and probably also eligible for a deduction as an election donation.

Mr. Ferraro: Is this federal or provincial?

Mr. Foulds: I am happy to report that the Conservatives are losing their shirts because only 300 tickets have been sold, but that is beside the point. The principle is the important element.

Hon. Mr. Nixon: I really like Tony Bennett. There is room, is there?

Mr. Foulds: I understand the necessity to plug that kind of loophole, but I also understand that a place in a city such as Waterloo or Thunder Bay can genuinely use a tax exemption, particularly in the season ticket package, in order to have a local symphony or a local theatre use the auditorium at a reduced rent. I do not know whether it is possible, but can the officials look at that in terms of definition?

Hon. Mr. Nixon: We certainly can.

Mr. Foulds: The point the Treasurer makes--which I think is off the mark; I can understand the Treasurer's resentment, as I resent as a nationalist when Bruce Springsteen and others come in, make a pot of money and go out--has nothing to do with Ontario's taxation system. I assume they pay the withholding tax, just as they would if they were under the auspices of a private entrepreneur. There is no way we can redress that.

Those are the only two comments I wanted to make.

Mr. Ashe: Perhaps we could have some response from the minister about what he might be prepared to do. I presume from the remarks he has already made that he is not quite at that point yet but will take last week's advice and this week's advice and come to some determination of whether he is prepared to sponsor any amendments.

Hon. Mr. Nixon: I accept that. When those amendments are decided on, if there are any--and I expect there will be--I will give you ample notice before the bill is called.

Mr. Ashe: That is exactly what I was going to ask for. Can we have some reasonable indication in advance of the committee of the whole debate of what the Treasurer might be prepared to do?

Hon. Mr. Nixon: Yes.

Mr. Chairman: In view of all that, I think Ms. Hart's motion that the bill be ordered for committee of the whole House is now appropriate.

Agreed to.

Next week the Treasurer will be back and we will be running through the financial paper that was tabled. That will probably take all next week. Thereafter, in December I hope we can breeze through the estimates.

The committee adjourned at 12:04 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

THURSDAY, NOVEMBER 27, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:

McLean, A. K. (Simcoe East PC) for Mr. Ashe

Morin, G. E. (Carleton East L) for Ms. Hart

Clerk: Carrozza, F.

Witnesses:

From the Ministry of Treasury and Economics:

Nixon, Hon. R. F., Treasurer of Ontario and Minister of Economics, Minister of Revenue and acting Chairman of the Management Board of Cabinet
(Brant-Oxford-Norfolk L)

Smith, B., Deputy Minister

Purchase, B. B., Assistant Deputy Minister and Chief Economist, Office of Economic Policy

Deutscher, P., Senior Policy Adviser, Economic Policy Branch

Hoicka, J. W., Senior Policy Adviser, Primary Sector and Manufacturing

Watson, R. J., Director, Finance Management Branch

From the Ministry of Revenue:

Leonard, L. P., Assistant Deputy Minister, Office of the Budget and Intergovernmental Finance

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 27, 1986

The committee met at 9:13 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW

Mr. Chairman: The committee will come to order. I apologize to the members. I knew this would happen sooner or later--a combination of an alarm clock and a smash-up of five cars on the Conestoga Expressway.

This morning we are going to deal with the Treasurer's economic outlook statement, and the Treasurer is going to run through it with us. There has been some discussion in the course of the past several days about taking a look at the Goodyear situation, and I know Mr. Cordiano has a motion. I suggest to the committee that motion be considered at the conclusion of this morning's proceedings, if that is agreeable to everyone.

The minutes of the meeting of the subcommittee which met on November 19 are in front of members. Mr. Carrozza tells me we did not formally adopt those minutes last week, so I am open to a motion to do that.

Moved by Mr. Ferraro, seconded by Mr. McFadden.

Motion agreed to.

Mr. Chairman: Minister, would you like to walk us through this excellent book? If anyone has not had a chance to go through this, it takes the whole government process and makes it extremely clear, to those of us who are neophytes, in its comparisons to the past, predictions for the future and comparisons with other jurisdictions. I am sure there is more the minister can tell us this morning.

Mr. Haggerty: Will the Treasurer's comment be taken from the crystal ball or from the computers?

Hon. Mr. Nixon: It is a combination. I am very glad to have this opportunity to discuss the report with the members of the committee and to say something about the work of the committee before I go further. I am sure that members are not extremely pleased with the work that has been thrust upon the committee which, in many respects, has diverted you from some of the principal goals enunciated when the committee was formed.

As House leader, rather than Treasurer, I do not know how we got along without this committee. So many things have been sent here for review, including estimates which were not really thought of as being part of the basic work of the committee. However, with the pressure of business on other committees, it was deemed necessary that the committee be asked to spend at least some of its time in that connection, in order to have an opportunity to review all the estimates before the House prorogues. I understand it will be doing Ministry of Revenue and Management Board of Cabinet estimates some time in the near future and I look forward to participating.

I also want to congratulate members on the work the committee has done

on the bilateral trade review. I regret that we have not had a chance to debate that report in the House. It was scheduled for last week, along with two other reports, but we got just one of the three completed. There is really no way of predicting with any certainty when the debate on that report will go forward, but I know it has been read and reviewed by a number of people, both in the House and in the financial community. I have heard nothing but good comments about it.

One other reference that came from the budget had to do with corporate concentration. I do not think has been quite so successful. I have not seen the report and I am sure it will be interesting when I do see it, but I thought there would be more interest in the community on the matter. Personally, I am quite concerned about corporate concentration. I feel that the committee might usefully channel some of the views of the House in a more informed way, through the deliberations of this committee. I know you have had hearings and there have been some quite interesting statements and revelations, but I really did think it would be seen as a more public occasion for the review of the corporate concentration situation. I may be assessing that incorrectly.

In my mind, the basic purpose of the committee was to give members on all sides of the Legislature a chance to participate in the formation of policy leading to budgetary decisions. When these decisions are announced at budget time, the members get a chance to say how marvellous they are or how bad they are, rather than having a chance to share ahead of time, at least to some degree, in the work leading up to the final decisions. Under our system of responsible government these decisions lie with me and my colleagues and the executive council.

9:20

I know you will take at face value my sincerity when I say I feel the involvement of this committee and other members of the Legislature is important and will be seen to be useful. It will be difficult for you to do that work as extensively as I had hoped if the Legislature keeps sending additional material for you to review.

Mr. Cordiano has already given notice of his intention to put a motion forward for the committee to look at the situation involving Goodyear. That is fine, as far as I am concerned. It will use up a lot of the valuable time of the committee but may be one of the more important things the committee does during the year. Of course, that is your decision.

There was some thought that community groups from business and professions and individuals with some special message might seek to appear before this committee on a prebudgetary basis. We all know that many of these groups want to talk to the Treasurer in advance of or as part of the budgetary decision-making process. There is no thought in my mind that this will divert people from the Treasury, but some of these groups are keen to present their views in a forum that is open to the press, to stimulate and engage broader public discussion.

Other views are expressed in private, if not in confidence, and that meets the needs of some individual and specific groups. I am not sure how extensively that work will proceed. Even though we are not on a formal budget preparation regimen in the Treasury as yet, certainly in January or February, particularly as the federal budget is read, we will be going into a more formal budgetary process, at least in reviewing the alternatives we will be facing as we approach budget time in Ontario in May or whenever it might come.

Before we refer to the economic and fiscal review specifically, it is useful for me to introduce someone I am sure you all know: Brock Smith, the deputy who has served me and my predecessor and my predecessor's predecessor very well indeed.

Mr. Ferraro: He does not look that old.

Hon. Mr. Nixon: That is what it is when you are having fun. I will ask him to introduce some of the staff here this morning. It is going to be more useful for members of the committee and for me if Bryne Purchase, chief economist, and some of his colleagues take seats a bit later on in the witness box, so that their comments will be readily taken down or recorded by Hansard. Brock Smith is going to introduce some of the Treasury staff here this morning.

Mr. Smith: We have with us Dr. Purchase, as the Treasurer mentioned. He is accompanied by Pat Deutscher and John Hoicka from his division, sitting on the left. From the Treasury division we have Robert Watson and Bob Christie. They are the grey-haired gentlemen sitting to the right. The smiling gentleman further to the right--I do not know why he is smiling--is the assistant deputy minister of the budget department, Larry Leonard. Behind Mr. Leonard is Mark McElwain, who is also with the budget division.

Hon. Mr. Nixon: I will ask Dr. Purchase and whoever might be of most assistance to him to come up and give us a general leaf through the report. Members of the committee should feel free to interrupt any time they want to ask for more information or to express a view that they think might be useful to me and to others gathered here.

Mr. Chairman: Dr. Purchase knows how this committee works, so I think that would be appropriate.

Dr. Purchase: The members of the committee, I am sure, are well aware that the Ontario economy is in its fourth year of expansion since the 1982 recession, the worst one we have had since the Depression of the 1930s. We anticipate continued expansion next year. This year, we are calling for a forecasted real growth of 4.1 per cent, which is down slightly from our budget forecast of 4.2 per cent, not materially but slightly, partly because our job forecast has dropped from the budget forecast to 156,000 jobs this year. Next year, we are calling for real growth of 3.6 per cent and 114,000 new jobs to be created in the province.

With regard to inflation, we think that this year the average rate will be four per cent and that next year's will be 3.5 per cent. With regard to the unemployment rate, we are calling for an average rate this year of seven per cent, dropping to 6.7 per cent next year. We will be continuing to get improvement in the economy next year, further improvement in the rate of inflation and further improvement in the unemployment rate.

Mr. Ferraro: I have a question. When individuals, politicians or whoever, read these estimates from the Treasury, can you tell me how close your guesstimates are? Traditionally, in the past, how close have you been?

Dr. Purchase: We have taken a look at that at least once, and probably more than once. Typically, we do reasonably well. Where you find you run into big problems is if there is a major change in the economy. For example, the most recent time I personally was vastly wrong was in 1982.

Mr. Ferraro: I thought you were going to tell me it was your wedding day, but go ahead.

Dr. Purchase: No, that would not be true. In 1982, the economy went sharply down. We had the direction right but we certainly did not have the magnitude correct. That is typical of most forecasters. It is extremely difficult to forecast a major change in direction, although at that time we did. If you do forecast a change in direction, sometimes you miss the magnitude of a dramatic change in the economy.

Typically, you will find we are reasonable. I think we compare extremely well. Mr. Deutscher did an analysis for us, in 1985, on how we compared with other forecasters. We are fairly good, but you have to remember that a lot of private sector forecasters forecast publicly a lot more frequently than we do. Typically, in the past, we did just one forecast for public consumption.

Mr. Ferraro: How well do your forecasts accord with reality?

Dr. Purchase: With reality? As I recall, they are reasonably close.

Mr. Ferraro: What does "reasonably" mean?

Dr. Purchase: Mr. Deutscher, can you help me out?

Mr. Ferraro: Within half a point or a point? Can you generalize?

Mr. Deutscher: Typically, our forecast a year in advance is within half a point of the outcome for real growth.

Mr. Ferraro: Excuse me for interrupting again. A half a point would mean how much in additional revenues to Ontario?

Dr. Purchase: What is the half point you are talking about?

Mr. Ferraro: Real growth.

Mr. Deutscher: Oh, real growth. I think we will have to call on the assistant deputy.

Hon. Mr. Nixon: It seems to me I have seen a statistical review of how close the projections have been, going back a few years. There ought to be a piece of paper on that which we can provide.

Dr. Purchase: We can certainly give you the answers. There is no question about that. I just do not have it in my mind. If the issue is how these relate to the revenue forecasted, that is a much more complex thing. It depends on why we are out. The growth can be in different parts of the economy, and you get different revenue responses.

Mr. Ferraro: I apologize for getting on this train of thought, but it appears that when it is a major and an excellent presentation on the part of the ministry, for my purposes, if for no one else's, one of the major criteria they have is to quote inflation and real growth estimates. It has significant ramifications, not only to the business community but also to consumers. I just wanted to put it in a context of trying to understand it to a greater degree, because it is my understanding that a half point difference in real growth is a significant amount of revenue--either way, loss or gain.

09:30

Dr. Purchase: Yes, revenue growth actually tracks more closely the nominal growth in the gross provincial product than real growth.

Mr. Ferraro: Perhaps you can get me that in a paper--

Dr. Purchase: Sure, we will show you what we have done in the past in terms of how our forecasts relate to what actually happened, if you like.

Mr. Smith: --because they have got to remember from the past, and Mr. Leonard might have it checked, but I think we used to say that one point of nominal gives about \$150 million in revenue.

Mr. Leonard: That is right. One point nominal is \$150 million to \$200 million, depending on the mix.

Mr. Ferraro: Would you briefly enlighten me on what the difference between nominal and real is?

Mr. Leonard: Nominal includes inflation and real does not.

Mr. Ferraro: Thank you.

Hon. Mr. Nixon: Nominal would be just under eight per cent. It is 4.1 plus something like four, except it is not completely additive, because there is a little slippage along the way, I have been informed.

Mr. Haggerty: I was interested in the doctor's comments regarding the unemployment outlook in Ontario. I believe he said it was down from seven per cent to 6.7 per cent, down a few percentage points.

I am not quite convinced those figures are right. The downturn in the automobile industry, particularly in the United States, will have an enormous effect on the industry here in Ontario. We see layoffs in the US of 11,000 at General Motors, and it is continuing that way. We have seen the takeover at the Goodyear rubber company, which has caused a number of plants to close down in the US and here in Canada. We know there are other small automobile companies coming onstream that will pick some of the employees, but again, we have seen the mass layoff here in Oshawa in one of the plants at General Motors.

When you look at that situation, where perhaps there is a huge inventory of automobiles in the US and in Canada that are not being sold, are you sure you are heading in the right direction when you feel there will be a drop in unemployment? I hope there will be, but are your figures right? I do not know whether your crystal ball is right or wrong.

Dr. Purchase: Obviously, we do not know that we will be right. We look at the major indicators that are available to us with whatever intuition we have about the economy and we make our best forecasts, as much because people need the forecasts as because we can do them properly. None of us can get along without these forecasts. We need them for every part of the budget. Everything government does, in fact, is based on some forecast about how people will behave over the next year or the next decade.

I cannot guarantee that we are right. It is appropriate to be concerned about what is happening in the US. In our document we say that we see a modest

improvement in US economic performance next year, largely as a result of improvement in the US trade balance. Going from something like a \$150-billion deficit on a trade balance to about \$130 billion, as I recall--

Mr. Haggerty: That is because their dollar has devalued to some degree.

Dr. Purchase: Yes, 40 per cent against the yen, which is an enormous depreciation of the American dollar against the yen. That should strengthen the domestic car sales in the US vis-à-vis the offshore automobile producers. As well, against the West German mark it has been a little less; there has been probably a 30 per cent or 35 per cent depreciation of the US dollar. Thus, there has been an improvement.

As well, the United States is in the process of negotiating with Taiwan and a number of other southeast Asian countries that have very strong trade balances vis-à-vis the United States to move the values of their currencies up vis-à-vis the dollar, so we can expect some improvement from that perspective.

I think you will see the American Democratic Senate move more strongly on foreign aid than in the past. The Americans sell a great deal to Third World countries, and that has been one of the big problems. They have not sold as well in those markets in recent years. I think you will see some turnaround in that as well.

As I said, we have a slight improvement. Some forecasters do not see that; other people say the US economy is weak and will get weaker. We do not hold that view. What you think in respect of the United States is important, because 90 per cent of our exports in Ontario go to the United States. That represents about 35 per cent of our provincial income.

Mr. Haggerty: Much of the economy of the United States now is based on military buildup; that is where the jobs have been created in the past 10 or 15 years, not in the domestic sector. If the United States gets into the microchip trade war, somewhere along the line it will be gearing up in that area and, of course, there will be a market loss.

The trade deficit in the United States--and we can see the repercussions in Ontario and throughout Canada--and its trying to control the imports and the dumping have affected Canada's trade relations there. I do not know what the eventual outcome of that will be, but it is a serious problem.

The farming sector alone has flattened right out here and in the United States. When you can look at the crystal ball you will say that there are indications in the United States that there will be no recession this year; there will be a slowdown. They said that as long as they maintain a fair interest rate there, they are not going to prevent industries from expanding because of the high interest rates. I do not know what the situation is here. Have you taken a look at this particular area?

Mr. Chairman: Any members looking at this issue should be aware of pages 40 and 41.

Dr. Purchase: We think the US monetary policy will continue to attempt to support growth in the United States. They recently negotiated with the Japanese to encourage the Japanese to reduce their interest rates. It gives the Americans a little room vis-à-vis the dollar as well if they want to move their interest rates down further, if that is necessary.

I think you will see interest rate policy in the United States that is very supportive of growth; fiscal policies may not be supportive. Because of the remnants of Gramm-Rudman, I think there will be some restrictions on fiscal policy; but we are still counting on the fact that the United States will do a little better in its external trade relations, not vis-à-vis Canada but vis-à-vis its other major trading partners.

That has been the big leakage from the United States economy. There has been an enormous trade deficit, which, of course, has had its political consequences as well. Everyone is working on it now. All the politicians in Washington are working on every country they can to improve the trade balance. As well, the currency changes are going to have some impact; there is no question about that.

Mr. McFadden: I wonder whether Dr. Purchase and the Treasurer could finish their submissions. It would probably be a lot more valuable to this committee if we went from start to finish and heard the full picture instead of interrupting. The flow gets completely off, and we may wind up anticipating in our questions what will be said later. It would make it a lot more valuable for the committee if the full submission went in, and then afterwards we can start our questions.

09:40

Mr. Chairman: Questions were welcomed initially. Is that the consensus of the committee?

Mr. McFadden: I am not saying the questions Mr. Haggerty raised were not worth while, but it would be much more productive if we heard the overview from start to finish and then went to questions.

Mr. Chairman: I see nodding that that is a consensus. Carry on.

Hon. Mr. Nixon: Mr. Ferraro's question about how precise these projections are, and the answer, are basic and very important because we are in the business of projecting. That is what Dr. Purchase does for the taxpayers of the province, specifically the Treasurer. It seems to me it would be helpful if we provided some additional information.

For example, his projections based on real growth and certain other factors, but that one especially, are compared with projections from other economists--the banks and certain American sources--indicating what the range of projections is for real growth in the coming year. As well, there is a look backward on previous projections and how they coincide with the facts. They are never precise, but they are extremely important.

In this connection, Premier Vander Zalm was visiting Toronto yesterday, and he may be introduced in the Legislature today. I hope he has the time to come in and say hello. They just sold the Bank of British Columbia, or there is a bill before Parliament to facilitate the sale of the Bank of British Columbia to the Hong Kong Bank of Canada. The Deputy Treasurer and I, in the service of the people, visited Hong Kong recently and had a chance to meet the chairman of the board--Sir Michael Sandberg, I believe his name is--and we were very interested in the way they make their projections.

They have a very elaborate group of economists. I mentioned this in the House. They also said they pay \$1 million to a soothsayer to assist the bank in making the important decisions about where the president's desk should be

located in his office and on what floor various aspects of their operation should be located. While perhaps the president was not taking this very seriously, still, governments and the major financial institutions there rely on this. Governments do not make a move without checking with these people on whether it is a propitious day and so on. I am not equating the two; far from it. I am saying that this is not a precise science.

We get the best people we can, and I believe we have the best people we can get. I am very impressed with the work they have done for me and for my predecessors. We are not standing up here and saying our projection is right. No projections are right. They simply give a guide to governments in their planning. We cannot get along without them, and we have frequent consultations, to tell you the truth. One of the more interesting series of meetings I have, and Miss Stephenson might agree, is when I sit down with the economists and spent a morning or an afternoon when they go over the whole range of the economy, sectorally and so on, and indicate how things are and where they are going as they see it.

Miss Stephenson: Dr. Purchase did not tell us, but his PhD is in astrology.

Hon. Mr. Nixon: There is something that makes him very good.

Dr. Purchase: I get considerably less than \$1 million.

Miss Stephenson: I am aware of that.

Mr. Chairman: From the committee's point of view, we are quite impressed with the work you are doing, and that is why I indicated that this document is impressive.

I noted something in the popular press in the past day. I think it was the Organization for Economic Co-operation and Development figures, but I may be mistaken. That group predicted that the Canadian inflation rate would go up next year, as opposed to those of all the other major industrial countries, and it was a kind of red flag article. It seems to contradict what you are saying. Would you like to comment on that?

Dr. Purchase: The range of forecasts I have seen--and this one does not include the OECD, but I am sure we include it within the range--for next year on inflation is a low of 2.4 per cent by Wood Gundy to a high of five per cent by the Bank of Montreal. A lot of that has to do with what you assume will happen to oil prices. The Bank of Montreal has oil prices jumping back quite sharply. It also has a lot of indirect taxes loaded in.

One of the things you should be aware of in our forecasts is that we do not forecast tax changes. We are showing you forecasts that assume the taxes in place are the taxes that will be in place for the rest of the year, for both the federal and provincial governments.

If, for example, we see that there are lots of new indirect taxes in there, then we will probably have to come back to you and say we have changed our minds. We do this partly because the forecasting of policy changes is difficult. As well, trying to anticipate what the federal government may or may not do, for example, is not a very good thing for us to get involved in. Therefore, we do not do that.

However, some private forecasters do. They will say, for example, that there will be a lot of new indirect taxes, perhaps as a part of tax reform, and they will load those into the thing. You get a higher inflation rate as a result of that.

Mr. Ferraro: Excuse me for interrupting, and I apologize, Dr. Purchase, but did you say the inflation rate does not take into consideration tax increases, or does it take--

Dr. Purchase: Our prediction of a 3.5 per cent increase in the consumer price index next year has no prediction in it about a change in taxes. In other words, we are assuming that the existing tax structure will stay the same.

Therefore, if the federal government changes its fiscal policy stance, there is a chance that we would come back to you, because it can be an important factor in some of these forecasts. As it turns out, the average of the forecasts that we see on inflation is about four per cent. Therefore, we are slightly below the average. We are optimistic, but not the most optimistic, on inflation.

Mr. Chairman: The figure I saw was 4.2 per cent.

Dr. Purchase: The federal Department of Finance is forecasting three per cent on inflation for next year in Canada, so we are in the range. We are not at the average, but again, a lot of it depends on major assumptions that you make with respect to oil prices, taxes and things such as that.

Hon. Mr. Nixon: Dr. Purchase, you might just go through the report indicating the structure, more or less, without talking about too much of the detail, so that the members of the committee know what our thrust was in this report. Then there could be more general questions.

Dr. Purchase: We have tried to give you the key factors, essentially the things we make major assumptions about, which we think will really have the most impact on the Ontario economy. In a way, to organize your thinking about the Ontario economy, you would have to know what is going on in the United States and make some decisions about that.

You would have to know what US economic policy is going to be and what is going on in the rest of Canada, and what federal economic policy currently is or may be, both federal fiscal policy and federal monetary policy. If any of these things change during the year in a dramatic or a significant way, we will change the forecast.

We throw in the price of energy as another major factor, because Ontario is a net importer of oil and natural gas, and it is a large component. It has had a very large impact on the Ontario economy.

The first oil price increases, the huge jumps in 1974-75, really represented a break in the growth pattern of the Ontario economy. Up until that time, we had been growing extremely rapidly. Thereafter, if you look at the history, you will find that the Ontario economy has grown much more slowly. It is creating a lot of jobs relative to anyone else but its productivity growth rates are extremely low and its performance vis-à-vis the western economies in particular is much less robust.

09:50

There was a dramatic change again when oil prices suddenly collapsed and commodity price weakened generally. The Ontario economy is growing strongly again, as it was in the early 1970s and even in the late 1960s, with the growth of the automobile industry.

You have laid out for you in this document the key factors and assumptions we have made so that you can make an assessment on your own part as to whether you agree with us. Not everyone will agree with us. The one thing you have to keep in mind is so many things are happening. There are so many factors that, in a sense, we get the advantage of where we err. If we are too low in one case, we may be too high in another. Our errors tend to balance out, we hope, in a total sense. In the final analysis, in this kind of macroeconomic forecasting, we are shooting to get the totals reasonably close.

I do not know that I need to take you through each of the key assumptions. I have already talked about United States growth fairly extensively and said what we think about it. We will have interest rates come off a little further next year. Because we have a lower inflation rate, the real interest rate, which is the important number, is also declining. For example, on page 9, where we have the real prime rate, you can see there has been a dramatic change in real interest rates in the economy since 1979. In 1979, you had the start of the so-called monetarist experiment in the United States. The result of all that plus Reaganomics was quite dramatic. They initially led to the recession in 1982.

Real interest rates have not really come down at all. In fact, they went up and have remained high. This no doubt has had a profound effect on the economy and the way it is structured now. Industries that are heavily dependent on capital, capital-intensive industries, are for the most part in the doldrums. You just have to look across the resource sector, including agriculture, to see this is precisely what has happened. Their prices are down or have not changed, but the price they are paying for capital is still extremely high. The real cost of capital to them is extremely high and their circumstances are depressed. That has had a profound impact regionally, if you look across the country, but the same is also true if you look at the province. Certain segments of the province are suffering more than others: the north, parts of the east and the agricultural community.

Mr. Ferraro: Forgive me. You will be glad to know that I have to go to the House at 10 o'clock. Is there somewhere in this book where it distinguishes between "real" and "nominal," so that a layman such as me can understand?

Dr. Purchase: There is a glossary of terms at the back.

Mr. Ferraro: Thank you; my apologies.

Dr. Purchase: I believe we have "real" and "nominal" in there. I am not sure. We defined "real."

We have the exchange rate more or less staying at its current range. There is an interesting aspect to this because the federal monetary policy now is geared more or less to maintaining the exchange rate in the 71-cent to 73-cent range. Part of this may be implicitly related to the trade negotiations. There is a lot of weakness on our trade account because of declining resource prices and weakness generally in the resource industries.

There is a fairly substantial interest rate gap between Canada and the United States that is used to maintain capital inflow to support the Canadian dollar in the range of 71 cents to 73 cents.

It is related to the trade negotiations. You can imagine it might be very difficult to sell a trade agreement to the United States Congress if the Canadian dollar were to slip below 70 cents, for example. At least that is my hypothesis. Notwithstanding that it might be totally justified in terms of the fundamental economics, it might not be perceived that way in Congress. If a trade deal were negotiated and submitted to Congress for ratification, it might not sell as well with a 70-cent dollar or a dollar worth less than 70 cents as it could with a 72-cent dollar.

That may have some impact on Canadian monetary policy. Early in the year the federal government defended the dollar quite sharply and the prime rate went up to 13.5 per cent. It was spiked in defence of the dollar but has since come back down. The differential in US-Canada rates was about five points early in the year and I am convinced this had an effect on growth. It slowed things down. We were off to a great start but things did slow down because of the defence of the dollar in the early part of the year.

I would not ascribe it totally to that, but it can have an effect. If something were to happen again that caused the bank to spike the interest rate, clearly we would have to take another look at our forecast to see whether we could sustain the growth that is currently built into the projection.

In 1985, our oil bill was \$6.7 billion. That was an average of roughly US\$28 a barrel. With the decline in oil prices in 1986, that oil bill declined by about \$2.6 billion. That decline was quite a significant stimulus to the Ontario economy. In addition, we estimate a \$500-million savings as a result of the decline in natural gas prices, especially to large industrial users. There is a fair stimulus that comes about as a result of oil and gas price declines. Most of this stimulus will actually be felt in 1987 so we are optimistic about 1987 as a result of the declines. Clearly, if you were to argue that prices will spike back up again, we may have to take a different view of our performance next year.

Hon. Mr. Nixon: Did you indicate to me at one time that the Bank of Montreal is projecting a five per cent inflation rate because it believes oil prices will spike?

Dr. Purchase: Yes. It believes oil prices will move back up more than we do. Mr. Deutscher, do you recall exactly what that level is?

Mr. Deutscher: I do not know the specific level, but I think the bank's projections have prices rising to more than \$20 per barrel again.

Mr. Haggerty: That is on the world price.

Miss Stephenson: It is significantly more than \$18.

Mr. Haggerty: It is up to that level. It is at the suggestion of the Organization of Petroleum Exporting Countries, whatever they tax in each country.

Dr. Purchase: We have oil prices at about \$16 a barrel by year-end and increasing at the rate of inflation or about 3.5 per cent or four per cent

next year. We do not have much increase in the oil price built into our forecast. Frankly, I have talked to a lot of experts in the oil industry, people who forecast just oil prices for a living. I am told it could be anything from \$8 to \$50.

It is a very difficult thing to forecast. Ultimately, you are trying to forecast the small-p politics of OPEC. What keeps OPEC together? Can they get it together? The political science of forecasting these things is still in its infancy relative to the economics, but that forecast is extremely important and we accept the one we have currently. It is reasonable because a lot of things are still viable at \$16 per barrel. Therefore, it can survive the politics, if you like.

10:00

Miss Stephenson: Most people right at the moment are saying they anticipate it will be at \$20 by 1990. By 1990; I kid you not. I was astonished because I had anticipated they were going to say it would be at \$20 next year. That is not what they are saying at the present time. They are not the expert forecasters. They are just the people who produce the oil and own it.

Mr. Chairman: They might have some influence.

Miss Stephenson: Yes, I think the protector of the two holy cities probably has a little influence on the price. He fired Sheikh Yamani.

Mr. Haggerty: The hour past 10 o'clock has arrived and I notice there are no members from the third party. Were they notified of the meeting today?

Mr. Chairman: They were notified of the meeting today. I was given some notice there might be some objection raised as to the meeting time. We might anticipate that a little later today; I do not know.

Dr. Purchase: Another point worth mentioning is business investment because it has been so strong in Ontario over the past couple of years. We have business investment continuing reasonably strong in 1987 with 9.8 per cent nominal growth. That is down from 13.6 per cent in 1986 and 15.3 per cent in 1985. Essentially, the exchange rate situation has been very favourable to the Ontario economy. Of course, we have seen it dramatically in both the assembly and parts sectors of the automobile industry. It is generally true that the conditions for investment are quite favourable. Capacity utilization rates in manufacturing are around 85 per cent, which is clearly enough to stimulate additional investment. Dead equity ratios have improved dramatically from what they were in 1982. They spiked at that time and have since come off. The interest-coverage ratios have also improved sharply.

Conditions for investment, in particular the continued growth in demand, if you like, are still good. Comparatively speaking, we are in a strong position in North America at the current time. There is every reason to believe that we can continue to attract additional investment spending. At some point, that will cool out, but we do not see it happening next year, at any rate. That is fairly strong.

On the trade front, we have trade acting as a slight negative in this year's accounts because of imports being so strong. Part of the reason is that we import so much of our machinery and equipment. If we have a strong investment expansion, a lot of that machinery and equipment is imported so you get more leakage from the trade side in that period.

Next year we see that improving a little and we also see exports improving because of the modest improvement built into the US economy. The exchange rate vis-à-vis Europe and Japan has of course improved quite dramatically. That will particularly help, I suspect, on the tourism side, on the service account. There will be some improvement there.

As well, we have given a medium-term outlook in this forecast. Clearly it is hazardous to forecast one year in advance. It is even more difficult to forecast several years in advance. These should not be construed as targets. We are simply saying that under current policy conditions, this is what the economy will look like by the end of 1990.

As well, we are not attempting to forecast any cyclical movements in the economy. You will notice that we give average annual increases. It is possible that in any one year the economy may underperform what we are suggesting. We are suggesting the fundamentals are such that by the end of 1990, we think the economy will have grown on average by 3.1 per cent a year from 1988 to 1990, which by historical comparison is a reasonably strong performance. On page 26, you see the historical comparisons for both inflation and real growth. You can see what we think about the economy vis-à-vis what your own personal experience has been during the past 15 years.

I think this reflects a host of assumptions about the future, mainly about decisions that governments have yet to make. Those assumptions are, in effect, that there will be no change. In the final analysis, we opt out of trying to predict what will happen with respect to, for example, a trade agreement between the United States and Canada because we have no idea what it may look like. We cannot model it until we do have some idea what it will look like.

Another point to make on the trade agreement is that in any case I imagine it would be phased in. I do not think there have been any such agreements that have not had at least a five-year to 10-year phase-in period. In the time frame we have here, we would not necessarily see any immediate impacts of it.

In terms of the medium-term outlook, I do not think there is anything particularly startling. You notice we have the unemployment rate coming down to 5.5 per cent by 1990. On the inflation front, we foresee at this stage no dramatic increase in inflation. We have turned the corner according to this forecast on inflation, if you think about our experience from 1975 to 1983, or even 1984 I suppose. We have made a dramatic change in our inflation outlook and the performance of the economy. This is a very important part of the change that has taken place in the economy. We continue to create more than 100,000 jobs a year in our projection to 1990.

I have covered some of the sectoral outlook. In the medium term, we have the manufacturing sector growing at roughly the rate of the total economy and we have somewhat slower growth in the primary sector than in the total economy. Service sector growth continues to outpace the growth in the overall economy. We see continued job creation in services vis-à-vis manufacturing.

10:10

Mr. Haggerty: Is that what you are driving at then, that any increase in employment will be mostly in the service sector?

Dr. Purchase: There will be an increase in employment and

manufacturing, but the service sector will continue to grow relative to the rest of the economy and grow relative to the manufacturing--

Mr. Haggerty: Are there any percentage points or numbers we are looking at in regard to the 111,000 jobs you are talking about?

Dr. Purchase: I do not have them in front of me, but I can get precisely what we are talking about there if you would like some numbers.

Mr. Hoicka: Page 39 indicates the historical data. Without knowing the exact number, the service sector would contribute more than 80 per cent of the total job creation. It has about 60 per cent of the total employment right now, but in terms of job creation it would create at least 80 per cent.

Mr. McFadden: Perhaps I could ask a question about something that appears on page 39.

Mr. Chairman: Yes.

Mr. McFadden: As I look at it, it adds up to more than 100 per cent. The service sector is shown approaching 70 per cent of the total labour force. If you take a look at the graph relating to goods-producing industries, manufacturing, construction, utilities and primary industries, you have more than 100 per cent. What is the reason for that? Are there subcategories appearing there?

Dr. Purchase: Yes, we have subcategories. Goods-producing includes manufacturing, primary, construction and utilities in this graph. You should be adding goods-producing and service sector to get the total. I hope that adds up to 100 per cent.

Mr. McFadden: Everything below the line of goods-producing industries is what makes up goods-producing industries?

Mr. Hoicka: Yes.

Mr. McFadden: All right. That was not very clear.

Mr. Hoicka: Sorry.

Dr. Purchase: Other people have commented on that graph as well. I think we will do something about that.

We expect continued growth in the service sector. Again, we are not saying anything particularly startling in that respect. As you can see, for quite a long time, employment in that sector has been growing as a share of total employment. Not surprisingly, we do not foresee any dramatic reversal of that trend. That is not a very startling forecast or projection, but no doubt it will turn out to be reasonably accurate.

Finally, from pages 40 to 43, we do try to give an alternative scenario. We modelled this scenario on only one major change in our environment; that is, a change in the US economy. What we do is hypothesize that the US economy would grow much less rapidly than we have in our base case which is what we think is most likely to happen.

In our scenarios, we have the US growth rate virtually not growing next year. The assumption in our forecast is 0.3 per cent as opposed to 2.9 per

cent. The result is that the growth rate in Ontario dropped from what we are convinced will be the truth, from 3.6 per cent to 1.5 per cent. We can see there is quite a dramatic impact. If there is virtually a flat US economy for next year, it will have a significant effect on the Ontario economy.

We still get some growth out of this because in the past couple of years, the Ontario economy has been much less dependent on the US economy for its growth. Domestic demand has been much stronger. Housing starts have been very strong, as has consumer demand related to housing, furniture and light goods. This has led to fairly strong domestic demand growth in Ontario. We do not think that would drop right away, notwithstanding the US economy.

Mr. Haggerty: You were talking about the American economy. There is an indication that the Americans will be dropping their dollar considerably if they want to compete in the world market; their costs are too high.

Drawing a parallel to Japan, although the currency may be higher in some areas--and they have dropped it considerably--the Japanese have still been able to maintain the level of employment in their country and in their industries. For example, if the Americans drop the dollar and it goes down a few percentage points next year, based upon your scenario of jobs being created in the service sector, more people will be travelling south because of the exchange on the dollar.

Dr. Purchase: Let me deal first with Japan. Of course, in this past year, the sharp spike in the yen, the 40 per cent appreciation vis-à-vis the US dollar has really slowed the Japanese economy. In the past quarter I saw, there was almost no growth in the Japanese economy. In fact, one of the reasons they made the deal with the Americans on interest rates was to try to kick-start the economy in Japan, because it has really flattened out right now.

That is not to anyone's advantage. It is important that the Japanese economy continue to grow, but clearly a 40 per cent appreciation of the currency is just tremendous. The Canadian dollar has changed vis-à-vis the US dollar by about 14 per cent in the past three or four years, so imagine 40 per cent in one year. It is unreal, especially for an economy as heavily dependent on exports as the Japanese economy has been. Of course, they are trying to wean their economy away from that and stimulate more domestic demand. They are also going abroad. The Japanese have become the number one capital exporters in the world.

Mr. Haggerty: That is right. They are going to compensate that loss on the other side, but they will still have the investment in capital projects in Canada, the US, France, Germany, all over.

Dr. Purchase: Yes.

Mr. Haggerty: There will still be revenue going back to Japan through that capital investment here.

Dr. Purchase: Yes. That shows up in their accounts. For example, vis-à-vis the US, even though we have a trade surplus with the US, our overall international current account is in deficit this year. The reason for that is we have always had a net outflow of interest and dividend payments to the US of quite a large amount because the US has always been a major investor in Canada.

The Japanese situation will look a lot more like the American current

account situation. Their trade performance probably is not going to be as strong, but their service account in payment of interest and dividends and all kinds of other payments for patents, trade marks, professional services, transfers, business services and so forth is probably going to be in strong surplus. They will be sending abroad fewer goods and more services as a result of what is happening in their economy now. They are developing what I would call a fully multinational kind of industrial structure.

10:20

The model of a lot of Japanese companies I have talked to is IBM. Those companies would like to be more like IBM, which produces in a large number of countries--I do not know how many--around the world. That is a potentially great advantage to us. The Japanese are, of course, much more interested, as we have seen in the papers recently, in Canada and, in particular, Ontario. Part of that is because our circumstances have clearly improved within North America but part of it is the dynamic of the Japanese economy. They have to export capital now. They are certainly coming to North America in larger numbers and we can expect that to continue.

Mr. McFadden: Just dealing with these alternative scenarios, one of the things you cannot very easily take into account in all this is the effect of the variety of countervail actions currently pending, and also the potential ones that may come up, plus the trade legislation that may or may not get through Congress. Have you done any review of the number of countervail actions now outstanding and the potential impacts they may have on the Ontario and/or the Canadian economies? Do you have any feel for that?

Dr. Purchase: In our forecasts, we have been optimistic in that we did not try to factor that in. We did not assume any new protectionist legislation in the US. We have taken a look at other people's impact analyses on softwood lumber. We did not build this into our forecasts, because, again, we were hopeful of a positive outcome, positive in the sense that it was our belief that the legal case against the decision made by the Department of Commerce was quite strong.

However, in the softwood lumber case, we took other people's basic studies and applied them in Ontario. We found that with a 15 per cent US duty, there could be somewhere between 500 and 1,000 jobs lost in Ontario in that industry. We are taking other people's studies, which are slightly different, and modifying them, but that number is going to be pretty close.

We also know, on the basis of what people have said so far in terms of layoffs that have occurred to date, that even in face of the possibility of this tariff being applied, about 445 may have already taken place, or at least in the announcements of those layoffs, there was reference to the 15 per cent US countervail tariff.

Mr. Chairman: What was the number you gave earlier in your prediction?

Dr. Purchase: Anywhere from 500 to 1,000.

Mr. McFadden: I am curious. When the lumber manufacturers appeared before the select committee this past summer, when they had been threatened with a 30 per cent countervail, they said it could cost Ontario 5,000 jobs directly and indirectly. Is that 15 per cent difference worth 4,000 jobs or is that strictly related to direct jobs, and then you can spin out from there? What are we netting out?

Dr. Purchase: This is a direct impact, not indirect. We are looking at just the direct job loss as a result of the 15 per cent tariff.

Mr. Hoicka: The difficulty at 30 per cent would clearly be more than double that at 15 per cent. There may be some people who could absorb 15 per cent but would have severe difficulties at 30 per cent. These are direct figures. They would not include the indirect spinoffs.

I have one other clarification. The 445 current layoffs are not necessarily permanent layoffs. They are all layoffs that have been announced, and it remains to be seen how many of them will be permanent and how many will be temporary. There is not a precise correspondence between the announcements and the 500 we thought of as permanent job losses.

Mr. McFadden: You are not taking into account any allowance, as the banks may do, for doubtful account. You are not making any allowance here for successful countervail actions one way or the other. We are having to assume that they will have no impact, and we will have to see what happens when they occur. There are two different projections that you are suggesting.

Dr. Purchase: For purposes of this forecast, we have taken the optimistic assumption, but that does not mean we cannot model the other. We have some information available to us. As part of its recent annual review, the Economic Council of Canada modelled the impact of a 20 per cent surcharge on imports of manufactured goods into the US. This was its heightened US protectionism scenario, if you like.

The main effects by 1991 for Canada were that real gross national product was 4.3 per cent lower, there were some 371,000 jobs lost and the unemployment rate was two per cent higher than it would have been without this US tariff imposed on the Canadian economy. You have to imagine that a 20 per cent surcharge on imports of manufactured goods into the US would fall more heavily on Ontario than on the rest of Canada, simply because we have the largest proportion of manufactured goods and the impact would be more, presumably.

I hesitate to get too far into it, because I do not want to give you the impression I have done the analysis yet. We can do that kind of thing if you like. Our models of both the Canadian and the Ontario economy would allow us to attempt some estimates of that kind of impact.

Mr. McFadden: That model is probably a doomsday scenario, although it is conceivable that it could come about. It is not beyond the realm of possibility. Given that Ontario's share of Canadian manufacturing is so large, you would expect a majority of those people thrown out of work would be in Ontario, would you not, or is that the 20 per cent?

Dr. Purchase: I would be careful about saying the majority. I do think the impact would be heavier, given, if you can imagine, a 20 per cent tariff only on manufactured goods and only from Canada going into the US. Yes, the impact would be greater in Ontario than in the rest of Canada. However, I am going to try to duck being precise, even so much as saying the majority of the jobs lost, because I am not sure what it would be. There is no doubt it would have a very significant impact if that happened.

Mr. McFadden: I am curious to get your reaction to this whole uncertainty. I detect that as long as this keeps going, it is going to have a depressing effect in the medium run on investment in Ontario and on job

creation. I have spoken to three companies on different occasions in the past month, and each one of them is setting up manufacturing in the US because they do not want to run the risk of losing the American market. They are cutting back production, or certainly not expanding here, and they are setting up in the US because they cannot run the risk of losing their American market.

I do not know if those three are all that unusual. Given that I have met three, there must be more than three in Ontario. I am curious to know whether you have any feel for the current level of uncertainty and what effect that will have on investment decisions and job opportunities here if it keeps going.

Dr. Purchase: Clearly, that sort of uncertainty has an impact and perhaps always has had an impact, since it has always been possible for the US to have recourse to its countervail actions. That uncertainty has been heightened because of the US trade deficit. Notwithstanding that the Senate now is controlled by the Democrats, you could argue that since the trade deficit is diminishing, perhaps the political pressure for utilizing countervail or any other kind of contingent protection measure will diminish in the near future.

10:30

Mr. McFadden: I hope so.

Dr. Purchase: As to exactly how uncertainty is modelled in the minds of businessmen: What are they looking at and what do they think is important? In any kind of investment decision, do they think it is what is happening today that is important or what is going to happen five to 10 years down the road? On this ground, I could argue that the rational, fully informed businessman might well think things are not looking that bad, that this might be the peak, the worst, and that things might well improve with respect to US protectionism.

There is no question that the Premier (Mr. Peterson) has acknowledged the importance of what we have mystically called secure access to the US market. This committee has already dealt at length with the importance of secure access. One of the central objectives of the federal government in its negotiations with the US is to get some cap on change in countervail and other types of contingent protection measures.

I agree that uncertainty with respect to access to the US market will no doubt have an impact on investment decisions. If that uncertainty is greater, there will be less investment here than there would be if we could find a way to diminish that. There is no question in my mind that would be true.

Mr. McFadden: I have a final item and then I will defer to the other members of the committee. It relates to the service sector and to areas where we expect to have expansion in employment. How important has it been to Ontario's economy for Ontario to be developing into a fairly significant financial centre? I know a lot is written about it and it looks good to everybody in the big buildings downtown. First, has this been an important engine for growth in Ontario? Second, what is the projection in terms of the future for the financial services sector?

Mr. Chairman: Does Your question have to do with international banking?

Mr. McFadden: No. I am getting at the whole financial services sector. It could include international banking.

Mr. Chairman: All right. I thought perhaps you were getting a little off topic.

Mr. McFadden: No. We have a projection here on the services sector. What I am trying to get at is somewhat related to the other study we are doing. I am trying to get an idea how important the financial services sector is now and what we expect it to do for us as an engine of growth in the future.

Mr. Chairman: Go ahead. I am sorry I interrupted. I did not hear the beginning of your question.

Dr. Purchase: I do not have the numbers in front of me. I can get you numbers to show how important it has been because I have seen the numbers. It has been important in terms of growth of employment. I am not sure it has been the most important of the service sectors, if you look only at growth, vis-à-vis other service industries. There is no question that it has been extremely important to Toronto. I do not think I could imagine the growth of Toronto being as significant as it has been if it had not been for the growth of the service industry here. Perhaps the best way to model this to see the difference is to look at Montreal vis-à-vis Toronto over the past 15 years. Just off the top of my head, it is important. When we get the numbers for you, I am sure we will be able to show that it has been a significant contributor to job creation.

Mr. McFadden: Why is Toronto so attractive? What can we do, in terms of the Legislature, to see that this growth and level of activity is maintained in Ontario? I assume it is not by serendipity that this is happening.

Dr. Purchase: Some of it was serendipity induced by--

Mr. McFadden: --induced by Quebec. I am curious to know exactly what we as legislators might do, in looking not only at the budget but also at legislation we might have before us, that would be helpful in your view on the macroscale to ensure that we can maintain that kind of growth, or if we cannot maintain the growth, at least maintain the activity in Toronto.

Dr. Purchase: Mr. Chairman, can I defer that and come back as opposed to trying to answer in a haphazard way?

Mr. Chairman: Perhaps you had better wait until the end.

Dr. Purchase: I really am not prepared to answer it; I would like to answer it but I am going to need help.

Mr. Chairman: It is a great opening.

Miss Stephenson: For example, what should we do with Bill 116 to help?

Mr. Chairman: Mr. Cordiano had his hand up but we want to let Dr. Purchase get through the report. I think the committee has directed me to do that. Mr. Cordiano, is your question relevant now or should we continue?

Mr. Cordiano: It is relevant. It is very brief. I am looking at the

sector outlook. I suppose we could be very affected by what my colleague, Mr. McFadden, was talking about, trade retaliation and countervailing duties imposed on some of our products in these sectors. I am looking at the transportation equipment sector. The annual percentage change during the 1981-85 period was 10.2 per cent compared to 1986-90 when it drops to 3.6 per cent. That is quite a significant and dramatic change over the two periods of time.

Dr. Purchase: It is. It certainly struck me that way when I saw the numbers for the first time. It is important to point that out. What happened in that period was quite remarkable. In the early 1980s, there was a good deal of concern about the future of the automobile industry in Ontario. There were people who believed the future was very bleak and a number of reports written were to that effect. At the time, we were producing large cars in a world that had absolutely no use for them. The second large oil price increase had taken place in 1979, which was causing us further trouble, and it looked as if there would be endless oil price increases.

Part of what happened was that the United States deregulated oil prices and gasoline prices started to fall in the United States. Therefore, the United States car market picked up. Recovery in the United States was fuelled by the beginning of the huge fiscal deficits there, as well as by certain tax changes that encouraged the purchase of fleets of automobiles by businesses.

The popular car was the large car, which had once been the dinosaur. We were all deeply worried about the future of the automobile industry when suddenly the thing took off in Ontario. Strangely enough, we were well-positioned for that kind of market. That is what fuelled the early recovery of the Ontario economy, the dramatic growth in the automobile industry and the growth in exports to the United States. Since that time, the automobile industry has been sustained by significant investments by General Motors and the Japanese.

The Japanese moving into North America is a slightly different phenomenon from the early increase. My view is that they will certainly help to sustain production levels as a result of their coming here. Not everyone shares this view. The explanation for the 10.2 per cent is that we were extraordinarily well positioned vis-à-vis US producers to supply large cars to the US market when it suddenly wanted them, where previously it did not want them at all.

10:40

Mr. Cordiano: In fact, the 3.6 per cent is still strong.

Dr. Purchase: It is still a very strong performance. Incidentally, transportation equipment is not just automobiles and parts. It includes aircraft as well as other types of transportation equipment such as locomotives. The aircraft industry is doing significantly better this year than previously. That is important as well.

The parts industry got a strong boost because of the movement to just-in-time inventory. Just-in-time inventory is a change in plant production methods that was driven in part by high interest rates. You want to reduce the amount of inventory you keep in the plant at any one time. There used to be tons of inventory sitting around. That was costing money. When you move to just-in-time inventory, one of the advantages is that you cut down the cost of holding inventories. The impact of that is partly to force the geographic

concentration of the industry because suppliers can never be very far from the assembly operation. My argument is that if you can capture an assembly plant, you are going to capture a lot of suppliers because they have to be close by.

Mr. Chairman: I hope Toyota hears that. The nice part about table 6 is the bottom line. Despite the changes in the transportation equipment sector, the total real output is still going up.

Dr. Purchase: That is right. We expect a stronger performance in the primary sectors, but not so much, I caution you, in employment terms as in output terms. I do not think you will see a large growth in employment in primary industries; I doubt you will see very much growth, but you will see growth in output in these industries as has been typical throughout their histories. They have experienced enormous productivity improvements, mostly because of needing fewer workers than in the past.

Mr. Cordiano: With respect to "Other Manufacturing," does that include some of the nontraditional areas of manufacturing? We usually bundle them together and call them high technology, but let us leave it at that for now and ask, are we going to see some improvement in that from 1986 to 1990? Is that forecasted figure significant?

Dr. Purchase: Yes, we have fairly strong growth there. Mr. Hoicka, would you like to comment?

Mr. Hoicka: We have a little more detail at the bottom of page 36. The essential problem with the high-tech sector is that we--in terms of demand for the products, it is growing quite strongly. Dr. Purchase mentioned earlier that it is linked to the continued quite healthy growth in business investment. However, a large amount of that is imported; about two thirds of machinery, equipment and electrical products are imported into the country. Conversely, these two components export close to half of what they produce to the US and, surprisingly, to a lot of other countries. They are less dependent on the US market than most industries.

We are anticipating reasonably healthy, but not strong growth. The reason is that the strong growth is going to tend to be in the imports. Our industries tend to be more concentrated on resource-based machinery in line with the historical Canadian situation. We are anticipating growth. For individual companies it is going to be up or down. There are some problems because some of them are not in the best lines to be in.

One positive feature for many of these companies is that with the European and Japanese currencies going up vis-à-vis both the US and Canadian currencies, in many cases Canadians will be more competitive in third markets than they might otherwise have been. In many cases they are exporting a combination of goods and services. You have to send people to help design in a system, not just a simple product. Where our labour and product costs have declined vis-à-vis the competitors, we are probably better off in those third markets. On the whole, it is reasonably attractive but not as attractive as we might like.

Mr. Chairman: Are you prepared to deal with a growing speakers' list? I will leave it to you, Dr. Purchase. Do you want to carry on?

Dr. Purchase: I have more or less highlighted everything I wanted to touch on. Aside from the specific numbers, most of it is to say that--a forecast is as much as anything a way of organizing your thoughts about the

myriad of events we all see. I get numbers from day to day that look like, "Oh, my God, how could this fit in with the overall picture?"

We have tried to structure this document to help the committee members organize their own thoughts about the economy and how things all fit together finally. If we turn out to be incorrect about some of these, no doubt we will bring you up to date on them. I did not touch on all the things we have. We have demographic forecasts in the area and we have more details if the committee wishes more details, but we did not want to make this document too massive.

We will be working on this basic model for the future. This is more or less the kind of document you will see but we will try to improve it in some respects. I would like to see us move more in the direction of finding some way of measuring Ontario's competitiveness as a location for investment vis-à-vis other North American states in some easy index you can look at to see how we are performing in that regard. We are going to try to improve what you see and we stand ready to provide the committee with any additional information it may need for its deliberations.

Mr. Chairman: The second part of your review has to do with a fiscal review.

Dr. Purchase: Yes. I will turn it over to my colleague.

Mr. Chairman: Before we get to it, we have questions from Dr. Stephenson and Mr. Haggerty.

Miss Stephenson: Mine has to do with demographics. I am curious about the projection that was made several years ago that we were going to come to a vanishing point as far as the labour force and unemployment figures were concerned. Do the projections that now are being made support or not support the thesis that eventually we will be in a negative labour position in the availability of things necessary to keep the economy running?

Dr. Purchase: Mr. Deutscher, do you want to respond to that in terms of our medium-term labour force forecast?

Mr. Deutscher: Over the medium term we do not come to a vanishing point. In fact, Ontario has been seeing a somewhat larger in-migration from other parts of Canada.

Miss Stephenson: The interprovincial shift is coming back again.

Mr. Deutscher: That is right, particularly from western Canada, but there has been an inflow to Ontario from most provinces. I am not prepared to speak about what will happen beyond 1990, but the inflow of people, essentially into the fertile part of the population, should build up the basic population growth for the province as well.

10:50

Miss Stephenson: The traditional pattern has been that the interprovincial flow was towards Ontario, even during the bad years. In the bad years of 1982 and 1983, we had the largest proportion of 15-year-olds to 24-year-olds in all Canada, in relative terms, in spite of the fact that other parts of the country looked a lot more attractive as far as jobs were concerned.

If the pattern of maintaining that inflow continues, it will not counteract totally the decrease in multiplication of Ontario citizens by the usual route, unless there is some dramatic increase in immigration or some real quirk of something going on. If we carry those projections on beyond the mid-term, is there the vanishing point that the demographers said we would have? They said we were going to have it somewhere in the 1990s. Is that likely to be there still, or have there been trends in the past couple of years demonstrating that is not a reasonable prediction?

Dr. Purchase: I will hazard a bit of an answer now and complete it later. We actually do our population projections beyond 1990 and we can do a labour force projection if we want to beyond that period. Part of the answer will reflect female participation rates in the labour force. One of the reasons we have continued to sustain strong labour force growth is the secular increase in female participation rates. In the late 1970s and early 1980s, that was a more important phenomenon than the youth entry into the labour force.

If we reached a situation where female participation rates were more or less the same as male participation rates, we would be depending for labour force growth solely on the population in the labour force age. No doubt, it will be significantly reduced in the growth rate, and most people are anticipating a significant slowdown. This is assuming there is no dramatic increase in immigration or no dramatic change in birth rates.

Miss Stephenson: And no dramatic change in employment patterns that would require huge numbers or diminish very large numbers.

Dr. Purchase: That is correct. We have some experts who try to model those changes and try to predict them. It is almost beyond finding a trend and projecting it into the future. You find very few people who are willing to hazard a guess about a major change in a trend at some time in the future.

Miss Stephenson: The Treasurer (Mr. Nixon) is never the least bit concerned about hazarding a guess about what will happen. He is frequently wrong, but that is all right.

Dr. Purchase: It is a fascinating part of this. There are lots of issues on which demographics impact in significant ways, and we have the capacity to deliver a lot more than what you see in this document.

Miss Stephenson: It becomes increasingly apparent that the shorter long term is as important in planning economic directions or governmental activities as even the medium term. Forget the short term; there is no point. The medium term is important, but the shorter long term is becoming one of the areas of potential hazard for us. We are not looking at it as carefully as we should. Those demographic projections, imprecise and inaccurate as they may be, have to give us the guidelines we require if we are going to do the job that is necessary, as far as government goes at any rate.

That was the burden of my concern at this point. I will be delighted to see what you produce in terms of demography.

Dr. Purchase: We will come back with some more information and try to address that.

Miss Stephenson: By the way, where is that demographic report?

Dr. Purchase: We produce a demographic report about four times a year.

Miss Stephenson: There was a massive one I hoped would be publicized last year.

Mr. Smith: Sorry, I am drawing a blank.

Miss Stephenson: I will remind you of it later, and we will see where it is.

Mr. Haggerty: I want to go back to pages 34 and 35, to the projections and forecasting of the manufacturing outlook in Ontario. I notice in your report you have very little to say about the resource base, especially the mining sector, in northern Ontario. I interpret from your comments that is almost flattened right out, and there is very little prospect of any future in the mining sector unless it is dealing with precious metals such as gold or platinum.

We know the problems that exist in the trade protectionist policy of the US regarding Canadian and Ontario lumber exports to the US. It does not look too bright for northern Ontario, does it? That is what you are indicating here.

Dr. Purchase: We acknowledge the serious problems that currently exist. Our forecasts are also saying there have been enormous productivity improvements in these industries. You can find there has been some flattening out and in some cases, some modest improvement in the prices of metals, but there has not been an improvement in terms of unemployment in many of these industries.

The same has been true in forestry. In some cases, there have been huge increases in output because of the strong growth in demand for sawn lumber. You can see this phenomenon in British Columbia, which is heavily dependent on the forest industry. The whole economy is deeply dependent on it. The US economy was booming in so far as housing construction was concerned, and there was a booming Canadian economy in terms of housing construction, yet there has not been the recovery in employment in that industry. Part of the reason is the dramatic improvement in productivity that most of the companies have succeeded in accomplishing since 1982. They simply do not need as many workers as they did before. They have machines that can do a lot of the work that was traditionally done by labour.

Even with some improvements in the economy and with improvements in the resource sector, you cannot necessarily expect strong growth in employment in those industries. You may expect spinoffs of various sorts in other industries such as the service industry and so forth.

Mr. Haggerty: Nickel has flattened out. Copper has flattened out. You can go right through the whole chain of the metals sector in northern Ontario.

Miss Stephenson: To produce the quantity, it does not take the numbers of miners it used to.

Mr. Haggerty: Through high technology.

Mr. Cordiano: It sure is happening in other sectors. Look at the auto sector.

Dr. Purchase: It is also happening there, but it is more dramatic in the mining sector. This is not unusual, incidentally, as many people who are more familiar with these industries than I am will say. There has been a long history of significant improvements in productivity. The same is true of agriculture.

Miss Stephenson: It is more dramatic in agriculture.

Dr. Purchase: It is even more dramatic. The industries typically have heavy capital intensity, because part of the displacement of labour is to put in more machinery and equipment, etc. They have wide swings in prices; there is enormous variability in prices.

There is a lot of typical pattern about the primary industries. They go through the huge increases in prices and enormous declines in prices. There is no indication that is going to change. Right now, we are on the downside of the cycle. There are large debt loads. A lot of them are working off debt loads still, but prices appear to be levelling out in the primary sector, outside of oil and gas; even oil and gas seem to be levelling out.

11:00

Mr. Haggerty: The directors of Inco met in Port Colborne last September, and I was invited to attend one of their sessions. The comments that went around the table were interesting. They were concerned about the Sudbury basin, and I was concerned about the operations of the industry in Port Colborne. They had that mass layoff in 1977 and almost shut down the refining industry in Port Colborne until they put in a new cobalt manufacturing process. They thought the price would remain high enough that they could get a return on their investment, but even cobalt is down.

One of the directors said when you look at the growth in the automobile sector, if they would put only five pounds of nickel into each car--that is an additional \$12 investment--they could turn around the nickel industry in Ontario. We sit back and look at it and talk about Canadian content in automobiles. Canadian content has been discussed for the past 10 or 15 years. New automobile manufacturing companies are opening shops in Ontario, and we have no provisions to say there will to be so much Canadian content.

I look at nickel and the safety that should come about in automobiles, particularly in the braking system. There is a steel tube in there, but it rusts through. Its lifespan may be two or three years, and then it has to be replaced. With the risk you are taking in an automobile with that thing and with the salt and conditions on the road, you would think somewhere along the line there would be some direction from government to say, "Let us see if we cannot get higher Canadian content." If we could turn around the nickel industry, and it would cost the consumer only an additional \$15 for the nickel in the car, we should consider something like that as a safety measure alone.

These are things to support our own industry that we should not overlook. You can rest assured that when the Japanese put an assembly plant here, they are looking at flying in parts from Japan too. If you lift up the hood of a car today and look at the mechanical things, even the braking system, they are all plastic, even containers to hold the fluid. They can be easily damaged or fractured, unknown to the person driving the vehicle. We have a problem there.

Mr. Chairman: Perhaps we can wind up the issue of the structure and get on with--

Mr. Haggerty: I want to come back to the point about employment though. We were talking about the demographic movement of people. What effect would the flattening out of the pulp and paper and lumber industries and the metal industry, mining in northern Ontario, have on employment in northern Ontario? With the broad coverage across all Ontario saying the north is going to be looking at an unemployment rate of around 6.7 per cent, have you divided northern Ontario from southern Ontario?

Dr. Purchase: We have not forecast that, sir, but I think we have the current numbers on the unemployment rate in the document on page 4. They are broken up into northeast and northwest, and you can see the effects there of almost no recovery from the decline of the unemployment rate in 1982.

There has been some recovery in the northeast, but there has been no recovery vis-à-vis the rest of the economy. They were hard hit in the 1982 recession, and conditions in those industries continue to be severe, notwithstanding some improvement in output and some flattening out and improvement in some prices, modest though they may be. However, employment has not significantly improved in those regions.

We know what is going on in the industries. We acknowledge these things, and the government has a number of programs to focus on regional problems in an attempt to come to grips, in part, with the question of alternative employment. There are large numbers of programs focused on new business startups, the tourism industry and a whole bunch of other industries ancillary to the resource industries themselves, as well as the movement of government jobs. There is an attempt to provide alternative employment.

We have not forecast the future in terms of regional unemployment rates. That is a very difficult thing to do, mainly because there is so much mobility and partly because we do not have enough numbers to do a rigorous job. If we did it, everyone would be deeply disappointed in our results. They would not find them very satisfactory. On the whole, I do not think it would be healthy.

We can tell you just about anything you want to know about the current state of affairs and we can help you with respect to the future of any particular industry, with what the experts are saying about the future for prices, output, employment and so forth. That much we can help you with, but we will not be as helpful on how a whole region might be affected. I am not prepared to forecast an unemployment rate for 1990 for northwestern or northeastern Ontario at this stage. It is an extraordinarily difficult thing to do, but we can give you all kinds of other information in that respect.

Mr. McFadden: Can I ask one question? I know you want to move on, Mr. Chairman, but there is just one thing.

In the past months, we have heard from the auto industry that there is a major overcapacity building up in Ontario. The industry is very concerned about the entry of Honda, Toyota and so on into the Canadian manufacturing area, and one of the allegations it makes is that it feels these companies have been given some sort of a sweetheart arrangement. It has been reported generally in the press that we are heading towards an overcapacity, which should lead to some people being thrown out of work somewhere in the automotive sector. That is not mentioned here.

There has also been the feeling that the overcapacity relates to a market that is buoyant, and there is some question about whether that buoyancy will survive much past the end of 1987 or 1988. Do you have any feelings on

that? Are the North American manufacturers crying wolf without justification or do you feel they have a legitimate worry? How does that affect the future of the transportation equipment sector and its unemployment prospects?

Dr. Purchase: I believe these differences of opinion centre on the crux of the matter, as I understand this thing. To some degree, you might want to talk to the Ministry of Industry, Trade and Technology about its views on autos or any industry.

Part of the issue is the forecasts I have seen of the future automobile demand in North America and the role of offshore producers, and therefore, by implication, what is left for the traditional North American producers. Most of their forecasts assume that the offshore producers will continue to import the same number of cars or that their share of the market will continue to be brought in. Japan is the big concern.

In addition, whatever domestic production they now have here will be added, so they have a sharp jump in the share of non-North American producers. You may question whether plants such as the new Honda plants, the Toyota plants or whatever are really meant to displace the imports or are simply going to add on and displace some domestic production. That is where the crux of the issue is. If that is so, how likely is it to happen? To use Honda as an example, will Honda be able to continue to import the same number of cars or the same share of the North American market as before, plus get new market share equal to its new production in North America?

11:10

In answering that question, you have to look at the value of the yen. Is it still going to be as profitable to import a car from Japan as opposed to making the same car in North America? Just because they are now in North America, can the Japanese get that much more of the North American market share?

I ask myself what has improved their competitive position vis-à-vis General Motors or Ford and so forth because they are now manufacturing here as opposed to before. You have to look at the nature of competition in the industry. A lot of it has to do with dealer networks and so forth. I do not think that has been changed at all.

The long and short of it is that we are optimistic. When I say optimistic, I mean we are not, from our perspective, buying wholly into the view that domestic production by the Japanese, for example, is going to be added on to their imports and that will be their new market share. Also, you have to look at how Ontario fits into the rest of North America. I think we are quite competitive vis-à-vis the rest of North America.

If there is a rationalization that has to take place, and General Motors has started to announce it already, but if you look at it, the rationalization so far--or most of it, not all, because we have had something happen here--has taken place in the US. In GM's case, the recent announcement of 11 plants that are to be shut down involve 29,000 employees and they were all in the US. Seven of those plants are in Michigan alone, involving 17,000 employees.

Miss Stephenson: Are we at the beginning of a down cycle in the automotive industry? There are economists in that industry who say there are wave-like cycles and we are at the beginning of one of those. Is that one of the factors? Is that one of the things that is bothering GM?

Dr. Purchase: I have to be careful to some degree about pretending to be an expert on the automobile industry, because there are many experts.

Miss Stephenson: I do not think you should be careful; go ahead and say it.

Dr. Purchase: There is no question that there has been a buoyant, strong market in automobiles and that there will be some shake-up. Part of the shake-up, though, will be not only from the cyclical movements in the economy; part of it will be this battle between major companies fighting for market share. This is a very fierce and competitive industry now in a way that perhaps in the 1950s and 1960s it was not so competitive--though they would not agree with that--but it is a heck of lot more competitive now than before. They would agree with that statement.

They have very sophisticated marketing strategies. They want you for life as a customer. General Motors, for example, has a very elaborate marketing strategy. I have been able to glean that they want you to buy a GM product when you first start buying cars, and when you become more affluent or your needs get greater or whatever, they move you up to larger and larger cars throughout your life. Buyer loyalty is apparently very important in this competitive mode.

The automobile industry is also very sensitive in a competitive sense to such things as price, much more now perhaps than before, because there are many more consumers who are sensitive to the cost of an automobile. There is a gigantic struggle going on in North America among some very major companies, obviously General Motors and Ford and the major Japanese car manufacturers, as well as the European manufacturers.

Miss Stephenson: So the statement that we are at the beginning of a down cycle may simply be psychological preparation for what is likely to happen.

Dr. Purchase: I believe so. Part of the competition in any market is in trying to position yourself with respect to all possible actors.

Miss Stephenson: Outwit, yes.

Mr. Haggerty: You mentioned Canadian content in the automobile and the jobs you see probably disappearing because of the mass layoffs and the closing of GM plants in the US. The Saturn project in Tennessee will be coming on stream very shortly. Somebody is shaking his head no. I said "shortly," within a year or so. That will be one of the most advanced plants in the world, with technology and computers. GM officials have indicated that where it takes 206 or 210 hours now to produce an automobile, they will do it in less than 30 hours.

Not too long ago I was talking to a group from Tennessee. They talked about a development in a little place at a crossroads, with a population of about 300. General Motors said it would put a plant there. Property has increased in value in that area. Small parts-manufacturing subsidiaries in the automotive sector have already moved in and the place is booming with employment. A number of these small subsidiaries to the parts industry offshore will get a foothold there.

We can look at what has taken place in the automobile industry here. You talk about Japan and capital coming in here. The Japanese are very shrewd

businessmen and they are sharp. They said you can put embargoes on cars coming in and quotas coming in to the US. They came in and said: "We will take the other route. We will invest in there and will still have a foothold. We would get parts coming in on American cars." It is still a win case for the Japanese. You can see the motivation behind it and you have to give them credit for moving in that area. Someplace along the line, though, we will have to take a good look here, because what takes place in that Saturn plant in Tennessee will have a serious effect on the automobile industry in Ontario.

Mr. Chairman: Do not forget, Mr. Haggerty, GM has pretty important plan for southern Ontario, too. That is the other consideration.

Mr. Haggerty: Yes. They put in some additional plant and they are modernizing.

Mr. Chairman: If you decide to force them to put more nickel into cars, for instance, that might jeopardize some of those plans. That is something we should look into.

Mr. Haggerty: No, but you can see the modernizing that is taking place at GM and in the automobile sector here. When they do that, you will see the jobs start to disappear. Look at Oshawa. There were 2,200--

Miss Stephenson: What we need to do is to develop our ceramics industry so that we will really be ahead of the automobile game.

Mr. Haggerty: Japan has got a run on that right now.

Miss Stephenson: I know.

Mr. Haggerty: They are further advanced in the area of ceramics in the automobile engine.

We will have to take a look at the content in Canadian cars made here so that we get a fair share of our input into the production, not just on the assembly line but also in the other areas that may assist the mining sector in northern Ontario and such places.

Mr. Chairman: Are there any other questions on the performance of and prospects for the economy?

Mr. Hoicka, are you prepared to talk about the fiscal side?

Miss Stephenson: No, it is Mr. Leonard.

Mr. Chairman: I am sorry. Mr. Leonard can talk about the fiscal view.

Mr. Leonard: Certainly, Mr. Chairman. My job is a little easier than Dr. Purchase's, since this section of the document tends to deal with documented events that have taken place and is not based on a forecast, other than one to the end of fiscal 1986.

I will touch briefly on the structure of this document from page 44 to the end. We deal first with the revenue structure, the composition of provincial revenues. Taxation provides 63 per cent, other budgetary and nonbudgetary sources 21 per cent and federal transfer payments 16 per cent. There are some details here which I do not propose to go into as I give you a quick overview.

11:20

Our major tax sources include the personal income tax, which is administered on our behalf by the federal government, and corporate income taxes and other forms of corporate tax, including the capital tax and the insurance premiums tax. The province of Ontario administers that and controls the base and rates. The retail sales tax, which I am sure everyone is aware of, applies to virtually all goods and some services. The tax has differential rates. The general rate is seven per cent. Alcohol may be taxed at 10 per cent when sold for consumption on licensed premises and at 12 per cent for home consumption. Accommodation is taxed at five per cent and the admissions tax is 10 per cent.

I have brief comments to make on the revenue structure, at least the tax part of the revenue structure. We have to maintain some degree of competitiveness with the jurisdictions surrounding us. In the earlier parts of this discussion this morning, there was great emphasis on manufacturing. We have to be very aware of what is going on, not just in other provinces but also with the contiguous states of Michigan, Ohio, New York and so forth.

It is tough to get an exact comparison because structures differ, but generally Ontario is a tax-competitive jurisdiction. Within the country, we are somewhere slightly below the average. In the case of sales tax, we are pretty much average, except for Alberta, which has no sales tax. We are comparable in personal income tax and corporations tax.

One item we can talk about is the matter of tax reform, which the ministry, and I in my role, have as a main focus right now. US tax reform has intensified the demand for similar change in Canada. That is going to have some bearing on what the provinces and the federal government can do. The federal government is committed. The thrust seems to be lower rates and a broader basis. That is pretty much the state of it at the moment.

I can move to the expenditures structure, which is on page 52 if you are looking for something to illustrate the basic distribution of the expenditure structure. Spending will amount to about \$31.8 billion this year. We are still four months from the end of the fiscal year. All the bills are not in yet, but that is as good a forecast as we have at the moment.

To touch on the composition of the expenditures, but not to read too much of the material that is actually in the book, social expenditures, which consist of spending on health, education, colleges, universities and other social services, principally in the Ministry of Community and Social Services, account for 61 per cent of the spending package this year. For purposes of comparison, consider that this block was 59 per cent in fiscal 1976.

The public debt interest is running at 11 per cent, and that was seven per cent 10 years ago; general government is at seven per cent and it was eight per cent 10 years ago, and resources and economic development, shown here as being at 17 per cent, for comparative purposes, was 22 per cent 10 years ago.

To touch briefly on capital expenditures during the five-year period, fiscal 1982-87, capital spending has ranged between \$2.2 billion and \$2.4 billion. It is forecast to be about \$2.4 billion this year.

Getting closer to the bottom line, the net cash requirements have varied quite widely since fiscal 1975. They were \$600 million in fiscal 1979 and they

were at their peak at almost \$2.5 billion in fiscal 1982. Since that time, the net cash requirements have been headed on a downward trend. We currently estimate them to be \$1.4 billion for fiscal 1986.

The net cash requirement per capita is \$157, if that figure is of interest, and we believe that to be the lowest among the provinces.

There has been a significant change in Alberta's net cash requirement per capita. It has increased from \$1,129 to \$1,406. I mention that for the information of the committee because it is quite dramatic, and it does change the picture that is being illustrated.

In terms of the basic operating position, again, these numbers are based on Ontario Finances. As of September 30, we are forecasting an operating deficit of about \$200 million in fiscal 1987. We can see that down from more than \$1 billion in 1981.

Mr. Watson, do you want to comment on public debt interest?

Mr. Watson: The public debt interest ratios are stabilizing with respect to a reduction in the volume of borrowing and somewhat lower interest rates.

Mr. Leonard: I am turning now to the material from page 59 on, which may be of some interest. This is tied in to the federal transfer payment issue; that is, the basic method of determining fiscal capacity as it relates to federal transfers and who gets it and the so-called tax effort.

The basic system used by the federal government is the representative tax system or RTS. It is a complicated and complex system. I did not bring an expert in with me today, but I can if the committee so desires.

We tried to give some examples here. Basically, it attributes a revenue source and tax base and rate of tax to each of the provinces. It is an attempt to say who has capacity and how hard they are driving that capacity. It is not a perfect system by any means. It has proven to be particularly sensitive to resource-based revenues.

The dramatic increase in oil prices in the late 1970s, the application of the formula and so forth caused the picture to be tremendously distorted nationally. There is some effort going on to smooth some of that wild variation, such as negotiations between the provinces and the federal government, but it is a long way from resolution at this time.

11:30

Again, in the determination of tax effort, we have tried to illustrate this with examples. One is an income tax example, which goes into the business of 39 different sources. This is, I hope, explained in here. The basic point of determination of tax effort is to indicate to what extent a province is taxing what is available to be taxed relative to some national average.

It does represent the basis on which the federal government tries to put all provinces, a position where they can deliver a more or less comparable level of public services. On page 62, there is an index of provincial and local taxation effort. The national average is taken to be 100. Ontario happens to be almost exactly on 100. The source for that is the federal Department of Finance.

Mr. Watson: As we mentioned earlier, in terms of the reduction of net cash requirements, the strengthening of the economy and the moderation of interest rates means that Ontario's debt-relevant and interest-rate-relevant measures are stabilizing. In the booklet, we have taken a look at debt and debt financing and have indicated the major components of Ontario's own-purpose debt, that is, debt which has been issued for Ontario's purpose only, excluding Ontario Hydro.

The bulk of the debt, as shown in the pie chart, is the nonfunded public debt which comprises the Canada pension plan and the teachers' superannuation fund. The portion of funded debt that is issued to the public is quite small. There is about \$800 million in bonds outstanding and about \$650 million in Treasury bills. The remainder is unfunded debt, that is, the borrowings from the public service superannuation fund, the Province of Ontario Savings Office and a variety of deposit accounts.

The other measure of debt is shown on the next page. That looks at the consolidated public sector funded debt, which takes not only the province's borrowings but also those of Ontario Hydro and those of the nonprovincial sector, that is, local governments, municipalities, colleges, hospitals and provincial agencies. Because of the centralized financing approach followed in Ontario, the vast bulk of it resides at the provincial level.

Then there is a chart showing Ontario Hydro's borrowing. That indicates that its borrowing requirements have moderated from a peak in 1982 and have stabilized around \$2 billion per year, which is gross borrowings. If you deduct the refinancings from that, it comes down to about \$1.1 billion.

We have tried to do some interprovincial comparisons to the degree that the comparable numbers could be determined. The indication there is that in terms of debt per capita, Ontario is third lowest, after Prince Edward Island and Alberta. In terms of debt to a gross provincial product, Ontario is second lowest after Alberta.

The other two tables deal with Ontario's debt maturity. If you take the maturities in relation to revenues for the next ten years, they will remain within the one per cent to two per cent of total revenues, which is where they have been for the past 10 years.

In terms of the other measure, creditworthiness or credit rating, there is a table that shows the current situation with respect to the ratings of the provinces across Canada. In 1986, the rating agencies continue to examine the various provinces with the result that three provinces have had their ratings improved, by at least one agency, and three provinces have been downgraded.

Mr. Chairman: On a positive side, on page 58, I notice that you mentioned the fact that we have recovered. In 1978-79, the debt was taking more than 16 per cent of our revenue, and now it is down to 11 per cent. As long as the economy is going well, that is good.

Mr. Haggerty: On reading your report, I was a little concerned about the matter of established programs financing, the unconditional federal payments to the provinces for health care and post-secondary education. I cannot find the chart, but I noticed there has been a considerable drop in the shifting or moving of funds from the federal government to Ontario in the past five years. If I am not mistaken, the figure that came up was in the billions, about \$4.4 billion. I am going by memory now. I thought I read it, but I cannot find it.

Mr. Leonard: It is on page 71.

Mr. Haggerty: On page 71. That would be somewhere near it. On the equalization factors, one of the panellists talked about Alberta in comparison with Ontario in the debt ratio, in which Ontario runs third.

With respect to the equalization formula, there is the unconditional transfer from the federal government to the qualifying province for the purpose of ensuring that provincial governments have sufficient revenues to provide reasonable comparable levels of public service at a reasonable comparable level of taxation.

When you look at the tax increase to the residents in Ontario and perhaps even to the corporations here, with the equalization factors and the transfer payments of the established programs financing, you find that Ontario pays a provincial sales tax and a gasoline tax on the oil it buys from Alberta. Yet in the news we hear of the difficulties Alberta has in financing its programs, crying foul to the federal government and saying it needs additional transfer payments. Whatever happened to their large fund? What do they call it?

Mr. Leonard: The heritage fund.

Mr. Haggerty: There must be still be billions in the heritage fund. With respect to the federal policy, I realize Ontario should be picking up a share of this across Canada and should be spreading some of its wealth. Do you not feel that perhaps Ontario is being too heavyhanded in the taxes going back to the federal government and the share coming back here, when you get a province that no sales tax and no gasoline tax, and then screams to the federal government and demands more of the resources from other provinces? It wants money resources to offset some of the slow growth in its economy.

Mr. Chairman: I do not know whether the witnesses want to answer that question. If they do, that is fine.

Mr. Haggerty: It is a good question.

Mr. Chairman: It is an excellent question, but--

Mr. Haggerty: It is to find out whether there is equity within the taxation across Canada. I can look at the eastern provinces which still have very little development--

Mr. Chairman: Basically, we are assimilating facts here.

Mr. Haggerty: Assimilating facts. I do not know what that means, but it is interesting.

11:40

Mr. Leonard: I can deal with the business of the almost \$5-billion reduction in the case of elimination of revenue guarantee and the caps on the various federal transfer payment programs.

The federal government began some of these programs well back into the 1950s; at least, they became significant at that time. There are even a few dating to the 1930s. They began these programs because they were in pursuit of some basic national average delivery capability for all provinces. The

provinces and the federal government went through a period where there were so-called shared cost programs that were complicated, highly targeted and led to literally years of wrangling among public servants as to who owed what for whom and who qualified for what. It was quite a mess.

In 1977 the Prime Minister decided, possibly driven by frustration with all the wrangling going on, that he would go for the EPF package, which was a combination of money and tax room. In terms of reductions in what the federal government has been paying to the provinces in transfer payments, the federal government has made it very clear that cost control and a reduction in its deficit is a major priority for it. The transfer payments to the provinces represent a pretty healthy chunk of its budget.

They are making efforts to control the costs. They have tried to negotiate some of them; some have actually been legislated. They have the capacity to do essentially what they like. These are agreements between the provinces and the federal government, and the federal government can dictate whatever it decides it wishes to do. Historically, they have always negotiated. All sides make a reasonable effort to come to some sort of an understanding, but the federal government is under no compulsion to negotiate these kinds of things. They can simply decide.

Mr. Haggerty: When they do this, they are shifting the tax burden to the taxpayers of Ontario. We can see taxes increasing, and then we turn around and give some of it back through the equalization factor to the have-not provinces. It seems as if every time we turn around, Ontario gets hit harder with gasoline tax and sales tax than even Quebec.

Mr. Leonard: It is a closed system; the only counters in it are the 10 provinces. To come to some sort of national average, the formulas tend to run on the best five, which means that virtually since Confederation, Ontario has been one of those best five. We will drag the national average up, down or sideways, as the case may be. As long as it is closed, there is not much of a way around that. We are not comparing a province with an American state or anything such as that.

Mr. Chairman: Was there never a period of time when we slipped below the average?

Mr. Leonard: Yes.

Mr. Chairman: I thought there was.

Miss Stephenson: Yes. The feds made sure they changed the rules, so we did not get any payments before 1984.

Mr. Chairman: That was my understanding. Stuart Smith told me that.

Mr. Haggerty: According to reports, Alberta is now 25 per cent below the average, which is considerable.

Mr. Leonard: It is conceivable that Alberta could become a recipient province fairly shortly. It depends on a lot of things. Clearly, deflation in oil prices has had a damaging effect on their economy.

Mr. Haggerty: They have other areas of taxation, if they want to move into them. We can be the good Samaritan and say we will tax a bit more on the sales tax and corporation tax and quite a bit more on personal income tax.

If you have a province that does not have a higher income tax, sales tax or gasoline tax, some adjustment has to be made there to say, "You have a revenue base out there that you should be tapping."

Mr. Chairman: I would like to interject a couple of things. First, I misstated the situation, when I referred back to page 58 and said those figures have to do with the months of budgetary revenue required to repay total debt. It has gone down from 16 to 14.7. I apologize to the committee. Dr. Stephenson brought that to my attention.

Miss Stephenson: There is one incident you might compare it with. I believe in 1952 or 1953 it took 18 months of provincial revenues to cover the provincial debt.

Mr. Chairman: Is that right?

Miss Stephenson: Yes.

Mr. Chairman: Back in the good old days.

Miss Stephenson: Yes.

Mr. Chairman: That is very interesting.

Miss Stephenson: It was somewhere between 18 and 20. I think it was 18.

Mr. Smith: Right after the war, until about the mid-1950s, Ontario's debt levels were fairly high relative to today's.

Miss Stephenson: In terms of the monthly revenues required to cover the provincial debt.

Mr. Chairman: If I could interrupt briefly, I mentioned at the opening of proceedings this morning that Mr. Cordiano has a motion he wishes to bring before the committee. The committee agreed at that time to proceed first with this review, to which we had been looking forward. I hope we can finish it first, but some people are looking at the clock. What is the wish of the committee? We do not have much farther to go, and if we can possibly--

Miss Stephenson: Let us finish the report first.

Mr. Chairman: Is that all right? Fine. Carry on then.

Mr. Leonard: I will try to be as brief as possible. I presume the committee will want to see us again in any event.

Mr. Chairman: We certainly will.

Mr. Leonard: I have touched briefly on some of the established programs financing. All these arrangements are made under what is called the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act. Also, the tax collection agreement on personal income tax is made pursuant to that act.

I have already touched on the EPF. It was a well-intentioned attempt to get out of a lot of bureaucratic wrangling about who qualified for what program. The Canada Health Act, which has some bearing on the recent matter of

extra billing, we describe here as illustrative of federal government attempts to reconditionize the EPF program. It started out as a largely unconditional matter, with transfers based on costs and not on other extraneous criteria.

Likewise, the federal government has moved with the equalization program in the matter of post-secondary education and in health contributions. I think I touched on that table. The simplest way to describe that to call it a closed system. We have national averages. Basically, the equalization program would end if you could get all provinces at the national average. There would not be anything to move around, something that sometimes I know when I go to these meetings among the provinces, and I wonder whether anybody has noticed that.

The last piece in this document that may be of some interest is about the provincial local transfers. It is dealt with quite briefly here. It is basically a summary of what they are for and how much they were. I do not know that there is much I can add. We also describe here the municipal revenue mix, being property taxation, provincial grants and other forms of revenue, roughly a third in each category.

Since you expressed the view, Mr. Chairman, that the committee desired to do some other business, I might leave it at that point today.

Mr. Chairman: If there is anything else you feel we should have brought to our attention, please do so at this stage.

Mr. Leonard: I do not think there is.

11:50

Mr. Chairman: Are there any other questions on the fiscal overview we have just gone through? Thank you very much, gentlemen. We will want to see you again. As I indicated earlier this morning when we looked at the other part of the overview, this document is going to be very helpful to this committee when we move into deliberations on any advice we can give to the Treasurer on the next budget.

Most members of the committee have Mr. Cordiano's motion in front of them. Before I turn the floor over to Mr. Cordiano, I will raise one point. I saw a draft earlier this morning that made reference to our corporate concentration deliberations. I remind the committee that we have indicated to the House that we will have a report on corporate concentration some time in the spring.

If I may impose this view from the chair, in view of what I am hearing has occurred at Goodyear, it would be negligent of us not to inquire into what has happened there in preparation of that report. I notice you have removed that paragraph from your resolution. I thought I would put that information in front of you before turning the floor over to you to make your motion.

Mr. Cordiano: That aspect of what the committee could look into could be incorporated into any investigation or inquiry we have before this committee. I did not put it in the motion because I thought it would refer to that in the general context and not with regard to any specifics I had in mind for this motion.

Mr. Chairman: All right. Perhaps you could make your motion and speak to it.

Mr. Cordiano moves that the committee should look into as many aspects as seem relevant to the recent announcement concerning the closure of the Goodyear plant in Toronto as soon as possible. The committee should call before it members of labour, management and any other persons it deems necessary and relevant to the Goodyear closure to obtain as much information about the closure as possible.

Mr. Cordiano further moves that the committee should also look at the possibilities for maintaining an ongoing industrial operation at the Goodyear plant site. In addition, the committee should consider the adjustments that will be required to be made by workers at the Goodyear plant with a view to the employment benefits legislation and how any changes to the legislation could be beneficial to workers affected by the closure.

Mr. Cordiano: Given the fact that we had an emergency debate in the Legislature, I thought it was most appropriate to bring this matter before this committee. It will enable us to look in more specific terms at the exact circumstances surrounding the plant closure.

In years gone by, there was a committee which looked at plant shutdowns. I am not attempting to suggest that we should duplicate the efforts of that committee. However, there could be a certain amount of information this committee could glean from its inquiry, as the chairman has mentioned, with particular reference to corporate concentration and how that fits into what we have already studied. As well, this committee should be allowed the opportunity to look at matters that are pertinent to the economy. This plant closure is one of the matters that should be discussed in this committee.

When this committee was formed, I thought it would look from time to time at matters which affect the economy with specific reference to plant closures and what could be done in terms of structural changes in the economy. We have not had much opportunity to do that, and this issue is a good case for that.

Mr. Haggerty: I was a member of a committee of the Legislature which looked into the loss of jobs in the Sudbury basin in 1977. Then a committee was appointed to look at the corporation layoffs in industry here. Perhaps your resolution does not go far enough. The problem with Goodyear and the rubber industry in Ontario relates to the takeover of the industry in the US, where a number of plants have also had layoffs and terminations of employment.

There was a British person over there who walked off with \$96 million. The industry had to go out and start buying back the shares again. That is what put it into considerable debt. They have had to refinance the industries on the American side, and in refinancing them, they have come back and said, "Some of these plants are not productive enough to be competitive in the industry." That is what has happened. They have shut down plants there, and they are shutting them down here in Ontario.

Somewhere along the line, someone will have to make a recommendation to the government of the day that a certain amount of Canadian content must be in the automobiles that are manufactured here. When Goodyear disappears here, its tires will be replaced with some others, maybe even from offshore. I think it is worth while to support the resolution.

Mr. McFadden: Our party has already expressed our concerns about the closing of the Goodyear plant. I do not have a problem investigating it as a committee; however, this further brings to the fore the fact that we have to

sort out this committee's role. We do not have adequate time allocated to us to do what we are now being asked to do. We have had legislation referred to us which we did not expect. Bill 116 is before us, and it is a major piece of legislation that impacts across the provincial economy. We are being asked to look at submissions in terms of the future of the Ontario economy.

I have no objection to looking at the Goodyear plant closing, but there are other plants that have closed where people have faced layoffs. I do not see why we should not look at their situations. I am sure Mr. Foulds will comment on the situation in northern Ontario himself as he is more capable than I am to do that. He asked a few months ago why we are not urgently investigating single-industry towns as a single topic and discussing the hundreds and thousands of people who run the risk of losing their jobs, from the problems with the softwood lumber situation on through to changes in the pulp and paper industry and so on.

Our concern is where we are going from here. A detailed investigation of one plant could take us days if we really wanted to get into it. If we set this precedent, all of us would probably come up over a period of months with plants we should be investigating, any number of which could be valid.

The jobs of 1500 people are at stake here; it is a serious matter. Given the limited amount of time we have, is an investigation of one plant really the issue? The issue is broader than that. We might take a look at changes in the economy and how they relate to jobs overall, and Goodyear might be one example. Given the incredible length of time we have for our committee and the number of items on the agenda which I understand are of some urgent public importance--the Treasurer is going to deal with that today--I wonder whether launching into a major study of one plant is feasible at this time.

If the committee decides to do that, I am happy to participate and go into this for days and weeks, but I wonder whether there are not broader issues in relation to this that would be more germane for this committee to look at. It is hard to do that today, but we have talked about corporate concentration and the impact that has. Somebody mentioned this could be tied in with that.

We are now looking at the financial services sector. We can expand that to take in all industry, but the difficulty we have with this resolution is how this committee can deal with it--it seems to fit appropriately with everything else we are doing--and whether it should be fitted into an overall economic review that I understand is to start in January, depending on what the House does.

Miss Stephenson: Can I ask one question? Did the committee accept this?

Mr. Chairman: This morning we accepted the subcommittee report without comment.

Miss Stephenson: So this motion would directly impinge upon the pattern that has been set.

Mr. Chairman: If necessary, I suppose the committee at this stage could pass a motion that would amend that pattern.

Mr. Foulds: Let me put this amendment to you squarely.

Mr. Chairman: Mr. Foulds moves that in paragraph 2, line 2, the following words be added:

"The government cabinet ministers and ministry personnel involved and/or responsible, such as the Ministry of Labour, the Ministry of Industry, Trade and Technology and the Office of the Premier."

and that the following be added as paragraph 4:

"Further, that this committee examine in the same manner and with the same urgency the recent announcements of layoffs and proposed layoffs in northern Ontario such as, and without limiting the generality of the foregoing, the layoffs at the Kimberly-Clark operations including the woods, the pulp and paper and the stud mill activities at Terrace Bay, the E. B. Eddy layoffs at Nairn Centre, the waferboard layoffs at Great Lakes Forest Products in Thunder Bay and the Falconbridge layoffs in Sudbury."

Mr. Foulds: I want to speak to this motion but we have four minutes, and I want to be in the House for a vote. I move that we recess and reconvene after the vote.

Mr. Chairman: Is there any discussion on that motion?

Mr. Haggerty: When would we reconvene?

Mr. Chairman: After the vote we would come back here.

Mr. Haggerty: I have a commitment between 12 and 1:30.

Miss Stephenson: Having accepted the amendments Mr. Foulds would make to this, I simply ask whether even the amended one could be accepted today or whether we should be rethinking the entire scheduling of this committee and whether we should be establishing a program in January and February to accommodate on a daily basis. You are going to need meetings to hear all the concerns.

Mr. McFadden: I raise the point of the panels, which we have talked about before. I wonder whether we are not heading that way. We have one of the panels we requested--

Mr. Foulds: I would certainly like to debate that whole matter and to debate it fully. I now have a procedural motion that we adjourn now, do the vote and come back and debate it.

Mr. Chairman: There is some objection to that motion. Would it be appropriate to have this matter continued before we deal with the estimates next Thursday?

Mr. Haggerty: I think so.

Mr. Foulds: Unfortunately, I will not be here next Thursday. I have a commitment to meet with officials in Manitoba on Thursday and Friday next week.

Mr. Chairman: So you wish to deal with it today?

Mr. Foulds: You bet your sweet life.

Mr. Chairman: In view of the fact that the bells are ringing, perhaps we could have a vote on the issue--I hear Mr. Haggerty saying he cannot be here--of whether we will come back as soon as the vote is completed to continue this debate. Is there any other discussion on that?

Mr. McFadden: I do not have any disagreement with coming back. I know Mr. Haggerty has to leave, but I think we should deal with this today. The matter has to be resolved.

Mr. Chairman: All right. Is there any other discussion?

Miss Stephenson: That means we come back--

Mr. Chairman: Are we all in favour of coming back after the vote at about 12:15? All those opposed?

Motion agreed to.

The committee recessed at 12:04 p.m.

12:24

Mr. Chairman: The committee will now resume.

Mr. Foulds: I fully sympathize, understand and support the amendment by Mr. Cordiano. Let me, however, remind this committee that it decided not to look at the structural flaws in the northern Ontario economy and the layoffs, of which I have enumerated only a few in my motion. Spokesmen for the Liberal Party and spokesmen for the Conservative Party decided that other matters were of more urgent importance for this committee. It was agreed, as I recall at the time, that as soon as we finished our corporate concentration study in the financial sector, we would indeed look at the northern economy. It was certainly the understanding I had. Since that time, a number of other things have been added to our agenda. Now Mr. Cordiano comes in with this motion.

Let me tell you what kind of a sense of outrage I have, not about his motion but about the emphasis that this puts in terms of our economy. General layoffs at Kimberly Clark, at Nairn Centre and in the mines in Sudbury make about page 5, if we are lucky, and page 17 of the big dailies here in Metro Toronto and southern Ontario.

When a layoff of 1,200 to 1,500 people at Goodyear in Toronto is announced, that actually makes front-page news in northern Ontario. In other words, northern Ontario is more conscious of the economic underpinnings of this province than the province as a whole is.

Those of you who want to vote for Mr. Cordiano's motion cannot avoid voting for my amendment, because the layoff of 250 people in Sudbury is more important to the livelihood of the community of Sudbury than the layoff of 1,200 to 1,500 people in Metro Toronto. Seventy layoffs at Kimberly-Clark's stud mill in Terrace Bay and the 250 layoffs announced in the pulp and paper industry in Terrace Bay are far more devastating to the life of that community than 1,200 layoffs in Metro Toronto.

Nevertheless, the 1,200 to 1,500 layoffs at the Goodyear plant are important. Those individuals have sweated and invested their lives in that plant. That plant is an essential part of the economy of west Metro Toronto. What has happened to the economy in northern Ontario over the past two or three years is beginning to happen to the economy in southern Ontario.

I do not want to be a Cassandra, but Cassandra was right. This is just the beginning. Unfortunately, we are going to see layoffs because of corporate concentration and international takeovers not only at the Goodyear plant but also in many other sectors of the manufacturing economy of northern Ontario. That is why I think it is urgent and important that we not only do what Mr. Cordiano wants but also what my amendment says. What that means for this committee is putting on the back burner all the nice academic, airy-fairy, fiscal and financial stuff we have been considering and thinking of as important for the past six months.

Miss Stephenson: I have no difficulty in supporting the amendment made by Mr. Foulds to the motion made by Mr. Cordiano. In principle, I think they are absolutely right. However, as Mr. Foulds has suggested, several months ago this committee made a determination about what its role was going to be, and its role was going to be in the direction outlined in the motion that was accepted in the subcommittee's report first thing this morning.

I suggest that the urgency of the matter raised by Mr. Foulds and Mr. Cordiano is such that this committee should petition the Premier (Mr. Peterson) to reappoint the select committee on plant shutdowns and employee adjustment, which I feel has had the experience, background, knowledge and expertise to deal with this subject in the appropriate way.

There is no doubt this has an impact. It is an impingement and a matter of real concern for the future deliberations of this standing committee, but I believe that in order to get that done, that select committee should be appointed now. We think that is one of the things this committee should do today; that is, to draft a motion to send to the Premier asking that he reappoint or re-establish immediately the select committee on plant shutdowns as a means of dealing with the urgency of this problem.

Mr. Chairman: Just as a point of information, Dr. Stephenson, while you were out of town, the committee heard from Mr. Blenkarn, the chairman of the federal standing committee on finance and economic affairs. I do not think you were here for that. He described for us a system they have incorporated of using panels, a tax panel and a fiscal panel. That was something Mr. McFadden was mentioning a little earlier.

Miss Stephenson: Right. I accept that as a reasonable route to be pursued. The alternative is that, at present, we have within the Legislature a group of people who have developed some real expertise in examining this whole issue of plant closures. Bob Mackenzie was one of them--I am trying to remember--and Bruce McCaffrey.

Mr. Foulds: I think Mr. Martel.

Miss Stephenson: Yes, Mr. Martel.

They began to have probably the most significant understanding of the problems of plant closures of any group we have had in the Legislature. I think it would be appropriate to utilize that expertise at this point rather than to use rank amateurs such as some of the rest of us in the panel process. For example, if we did a panel, the numbers from this committee could probably be only one from each party. Is that an appropriate kind of hearing for that important subject? I do not know.

12:30

Mr. Chairman: There is no doubt the select committee on economic

affairs and this committee have both benefited a lot from Mr. Mackenzie's experience on the plant closure committee. It has been brought up a number of times. There are examples of various things.

Mr. Cordiano: With regard to the comments made by Miss Stephenson, the role of the committee was outlined, but it fits into the area we staked out for ourselves. There is no doubt it will impinge on the time the committee has. I wanted to see this concern, this major issue, brought under the direction of the committee as it would impact on the economy on an ongoing basis and incorporated into our proceedings with regard to any kind of recommendations that we make about the economy in the future.

I remember talking to this point at the time we had discussions about the direction of the committee. I said we should make provision for studies of the structural changes that are occurring in the economy and other important matters. I think that fits under the general direction.

I want to refer to what Mr. Foulds said. I think at the time we were discussing the general direction of this committee, we stated there should be provision for issues such as this and it should appropriately come under the purview of this committee.

Mr. Ferraro: I want to make a few brief comments. As much as I applaud my colleague Mr. Cordiano for bringing in this motion and concur with the need to look at it, I am also moved by the arguments made by Mr. Foulds. I concur wholeheartedly.

Fortunately, my riding is very healthy at the moment, but there have been some announcements of layoffs, one recently where 80 people are losing their jobs. That is of concern; admittedly, not to the same degree as the problems of the members from the north. We can empathize with them. Try as we may, it is a problem with which we are dealing constantly. In that regard, Mr. Foulds is right, and I think Mr. Cordiano concurs with him--at least, that is the sense I have--it is a problem that has to be dealt with and perhaps we should deal with it.

I do not totally agree with Mr. Foulds when he says the agenda of this committee has been lacklustre, to say the least. I agree with him for the most part; quite frankly, it has been boring as hell in some cases. However, I am mindful of the mandate the Treasurer and the House originally had, to some degree, and what is potentially coming down the pike. I speak of estimates and dealing with budgets. As boring as it may be to some, it is a very important function of this committee and, to some degree, Mr. Foulds would probably agree with that.

I want to conclude by saying that adopting Mr. Cordiano's motion and Mr. Foulds's amendment is going to change the committee entirely. I agree totally with Dr. Stephenson. If this committee is going to do anything, it should make a separate petition or request to the government--because inevitably it will be the one to decide--to re-establish the committee on plant closures.

Mr. Mackenzie: I suppose it is no surprise that I echo strongly some of the comments that were made by my colleague Jim Foulds. If this motion is going to be voted on, I think his amendment has to be part of it, but I think the motion is not before the right committee at this point. In fact, I would be a little stronger than that. I think it is a bit of a cop-out on the part of the government.

Once we get on to corporate concentration and out of the straight financial sector, it seems to me that we already have the ability to deal with what is happening at Goodyear if we want, along with a lot of other plants, because it is part of the problem. However, if we are going to put the focus on that one specific issue, it is going to kill the rest of the work that has been assigned to this committee.

Miss Stephenson is probably right. We should have either a reconstituting of the select committee on plant shutdowns and employee adjustment or a separate select committee to deal with this issue, which probably should be broadened beyond the Goodyear situation. Like Mr. Foulds, I know of some disturbing additional moves that are coming in terms of plants and employment that we have started to catalogue. I suspect we will not be in the so-called good period in southern Ontario very much longer.

It seems to me that directing this specific matter to this committee, as Mr. Cordiano has done, diffuses all the work of the committee. This is what the emphasis will be. It does not deal with the other plants, and I think it is so that they can say it is before a damn committee and we do not have to respond immediately in the House. Pardon me for being so strong.

Mr. Taylor: I understand Mr. Cordiano's resolution and I am compelled to accept the logic of Mr. Foulds's amendment. I have some concern about trying to place the government in a position where it has responsibility for every change and for the loss of every job, although it takes credit for every job that is gained, as I understand.

Mr. Chairman: It is the global theory of politics: "It happened in our era. We get the credit."

Mr. Taylor: That is right.

In terms of job loss, restructuring and the rationalization of industry, not only in this country but also in other countries around the world, we have been experiencing this for some years and will continue to experience it. It is the fallout from that and the accelerated or emphasized fallout that has concerned some people, and I might refer to the members of the New Democratic Party and others, in regard to the whole issue of free trade. Is this going to further distort and cause further dislocation and job loss? That was one of the arguments in terms of free trade.

What I am saying and what is very evident to all is that it is occurring now not because of free trade; in spite of free trade, that is what is happening. Free trade has to respond to this worldwide condition. I want to make that point.

A further point I want to make, in fairness, is that government, and I do not care what government or at what level, cannot be held responsible for every job that might be lost, for every plant that might be shut down or for every rationalization that might take place or takeover that might happen. I do not think you can assess the responsibility of that on government, and I have listened attentively in the House to the criticism of government from the opposite side.

This is not to say that the government does not have a role. The government may well have a meaningful role in terms of what is happening in this whole area. I am saying that the government must not necessarily be held responsible in terms of the forces at work that are causing the dislocation

and the job loss. I see a need for government to play a role in this, and that role must be meaningful and positive.

I question whether this committee is structured or charged with the responsibility of that role. That is what troubles me. I am compelled to agree in this regard with my colleague Dr. Stephenson and my good friend Mr. Mackenzie, with whom I seldom agree. If government is going to play a meaningful role, then I think you have to have the proper vehicle with which to do that. I question whether this committee is that proper instrument.

Those are my comments.

12:40

Mr. Foulds: I apologize for some of the heat of the argument, particularly for casting some aspersions on its previous work. That work was very valuable and very important in terms of the macroeconomics of the province. We cannot solve macroeconomic problems without understanding the particular human economic problems, and vice versa. We all understand that.

However, let me urge committee members to pass this motion, and let me explain why. Tactically, it is very important for our committee to pass the motion. At that point I would be willing to entertain the idea put forward by Dr. Stephenson, which, if you want the honest-to-God truth, is the most logical way to proceed. However, this committee will not have a weapon of any kind should the government fail to appoint such a select committee or to reactivate the committee on plant closures and shutdowns. If we defeat this motion and merely petition the government to establish such a committee, we all know enough about the realities of time in the Legislature and the demands of committee work that it could be continually shoved on the back burner. In view of the necessity of manning committees and the Legislature, since it is going to be called back on January 12, somehow that committee will not get reconstituted.

Let us pass the motion. Let us bring it to the attention of the House and the government House leaders. I would certainly be willing to reconsider this motion at a subsequent meeting if, as a result of this, the special committee on plant closures and shutdowns were re-established. If we do not pass this motion, if we defeat it, we have no reference; we go into battle as unarmed men and women.

Miss Stephenson: I was not suggesting that we defeat the motion. What I would suggest is that the motion be amended further to state that if the government is unwilling to re-establish the select committee on plant shutdowns or plant closures, whatever we called it, this committee would be responsible for that examination as soon as possible.

Then we would have two arrows in our quiver, because we have said we strongly believe there should be a re-establishment of the select committee on plant closures simply because of its experience and expertise. If the government refuses to do that, this committee is committed to reordering all its business to deal with a subject with the urgency it thinks it requires.

Mr. Foulds: Is Dr. Stephenson willing to put such an amendment and put a deadline in it of, say, two weeks before the adjournment of the House?

Miss Stephenson: Yes.

Mr. Foulds: I would certainly entertain that as a friendly amendment. It will be a little tricky to word as we are bargaining back and forth because, in a sense, it would be technically so contrary to my amendment.

Mr. Chairman: Dr. Stephenson is working on an amendment to your amendment.

Miss Stephenson: Actually, it is an amendment to Mr. Cordiano's motion, because it would have to come in the first paragraph.

Mr. Chairman: Mr. Foulds's amendment is on the floor. Would you be prepared to withdraw the motion?

Mr. Foulds: No. I am willing to suspend debate on my amendment, which is currently before the committee, while Dr. Stephenson draws up her proposed amendment. I am willing to have that amendment or my amendment considered, whichever appears most judicious, so that we will get a motion that is not only agreeable to the committee but also forceful to get the government to act on the matter.

Mr. Chairman: I understand you are prepared to consider a friendly amendment from Dr. Stephenson.

Clerk of the Committee: There is no such thing as a friendly amendment.

Mr. Chairman: There is no such thing as a friendly amendment?

Miss Stephenson: It is not an unfriendly one.

Mr. Chairman: In the meantime, I have a speakers' list, and when Dr. Stephenson is ready, we will consider what she has prepared. I have Mr. McFadden and Mr. Cordiano.

Mr. McFadden: I am in support of this whole process. I knew when I spoke that Mr. Foulds would probably say what he said, and he did.

Mr. Foulds: Coming from the north--

Mr. McFadden: I understood that very well.

It does strike me that one thing we had talked about before, which I had hoped we would manage to get on to sooner--and this came out of our discussion at the very beginning and came up in our scheduling group--was that in addition to looking at plant closings and the problems of single-industry towns, we were also going to try as a committee to find potential alternatives for the people being affected.

It seems to me that one of the difficulties we have when we look at the whole context here is that we are approaching an issue after the horse has left the stable. The layoffs have taken place by this point. It is worth while investigating it in the sense that we can find out the reasons for it and how adjustments can be made to ensure that these companies do not continue these layoffs, or perhaps that they rehire the people.

It is a fact of life that some plants will close for one reason or another. We cannot stop all closures. It seems to me that the difficulty we continue to face as a province, and broadly as a country, is the large number

of communities across the province and the country that are dependent on one industry or close to one industry. While it is good during the good days, it is terrible during the bad days.

I have not seen very much evidence to date of much effectiveness anywhere in Canada in dealing with that. I am not saying our committee will magically come up with some solutions, but I think this is an issue worth looking at seriously. We can add that to the work we are doing on the economic outlook and consider it as a concern separate from anything that might happen in a select committee on plant closings, because it seems to me that what is being structured here is a very specific look at specific closings and how the law can be amended to deal with them.

I am not trying to decide exactly whether a new select committee might want to look at all this in the future, but I do think there is a very major issue that we did discuss a number of months ago, which was put on the back burner until we finished this one chunk of business on the financial services sector and which, I think, should be moved to the front burner.

My concern about getting on to the specific plants is that, given all the other business, we are just going to be completely screwed up here, so I support the idea of getting a select committee appointed to deal with plant closures. I think, though, that as part of our overall economic outlook work we should make the situation with single-industry towns and certain industries a focus. That obviously is a part of the budget process.

Miss Stephenson: That is exactly why the select committee would be of benefit to us.

Mr. McFadden: Yes. It is a complex question, but I think we should get on with what we are now doing.

I do not know whether Miss Stephenson has worked up her--

Miss Stephenson: I have something.

Mr. Cordiano: May I comment on Mr. Foulds's amendment? I certainly have no difficulty with the general thrust of the amendment. The only thing with which I have some difficulty is the sort of indictment of the government. It is a little too specific with regard to reference to the Ministry of Labour and the Ministry of Industry, Trade and Technology. I have no doubt that both those ministries will be delighted to co-operate with this committee. I do not see any problem with that and, quite frankly, I do not think we should indict those ministries or those ministers.

12:50

Mr. Chairman: I did not think you were indicting labour or management necessarily, were you?

Mr. Cordiano: No, I am not saying that. I have said in my amendment that we can call whomever we deem necessary before this committee. I do not think it is necessary to point out any ministry. We can call on any individual we deem necessary. It is a minor point but I wanted to bring it out.

Mr. Chairman: Dealing with perceptions, my concern as chairman is that one reason to consider reopening the plant shutdowns committee is the expertise that could be made use of if those people were to be reappointed,

but there is no guarantee they will be. The other reason is that our committee has not been assigned enough time, and that is a whole other issue.

Mr. Cordiano: I am not talking about that.

Mr. Foulds: On a point of order, Mr. Chairman: Speaking to Mr. Cordiano, I was not laying blame or indicting. It is just that if we actually engage in this activity, I do not want to have to go through another procedural motion to call the ministries that have already taken a lead, made statements and taken initiatives with regard to that.

Miss Stephenson: You have neglected one. The Ministry of Northern Development and Mines should be listed as well.

All I have said is: "Given the urgency of problems related to plant closures and shutdowns in Ontario, this committee recommends that the government re-establish the select committee on plant closures to examine the problems by December 15, 1986. If the government does not re-establish the select committee, the standing committee on finance and economic affairs will suspend all other deliberations in order to assume responsibility for this study forthwith."

Then we go on with the paragraph, "The committee should call before it...", and the amendments.

Mr. Chairman: Are you prepared to have debate on your amendment held in abeyance while we debate Dr. Stephenson's amendment?

Mr. Foulds: I do not see any reason for debate on it. I think it is quite acceptable. I would quite happily substitute that for the lead-in, and then we go on with that and--

Miss Stephenson: With the second paragraph as amended by--

Mr. Chairman: You are accepting that as part of your amendment then?

Mr. Foulds: No. Technically, I think we have to vote on Dr. Stephenson's proposed amendment first, then on my amendment and then on Mr. Cordiano's amendment.

Mr. Chairman: Do you have anything more you wish to say to your amendment, Dr. Stephenson?

Miss Stephenson: No.

Mr. Chairman: Is there any other discussion on it?

Mr. Ferraro: I would like to hear the amendment again.

Mr. Chairman: Perhaps the clerk will read it.

Miss Stephenson: I had better read it, but I do not think--

Mr. Foulds: Doctors' writing is as bad as teachers' writing--

Miss Stephenson: "Given the urgency of problems related to plant closures and shutdowns in Ontario, this committee recommends that the government re-establish the select committee on plant closures to examine the

problems by December 15, 1986. If the government does not re-establish the select committee, the standing committee on finance and economic affairs will suspend all other deliberations in order to assume responsibility for this study forthwith."

Then we go on to say, "The committee should call before it...."

Mr. Chairman: That is Mr. Cordiano's amendment.

Miss Stephenson: Yes.

Mr. Chairman: Are you placing that after the first paragraph?

Miss Stephenson: No. It is in place of the first paragraph.

Mr. Chairman: It is in place of the first paragraph in Mr. Cordiano's motion. Does everyone understand the amendment? Is there any debate? Is there any discussion? We are talking about Dr. Stephenson's amendment to Mr. Cordiano's motion.

Mr. Foulds: There is actually one small grammatical error.

Miss Stephenson: I am sure there is.

Mr. Foulds: I do not want to nitpick, but it would be better that the phrase "before December 15" appear after "re-establish."

Miss Stephenson: That is fine.

Interjection.

Miss Stephenson: Exactly; you are right.

Mr. Chairman: It is obvious that Mr. Foulds is preparing himself for his new career.

Miss Stephenson: Yes; "establish before December 15."

Mr. Chairman: Is there any further discussion? Are you ready for the vote on Dr. Stephenson's amendment? All in favour? Carried unanimously.

Motion agreed to.

Mr. Chairman: Is there any further discussion on Mr. Foulds's amendment?

Mr. Cordiano: I just want you to know that, as I was telling Mr. Foulds, what we are doing in effect is establishing the agenda for the possible creation of the select committee or for this committee, whichever committee looks at these issues.

Miss Stephenson: We are certainly establishing our agenda if the select committee is not.

Mr. Foulds: I think that is a very powerful way of doing it.

Mr. Ferraro: Can the House say no if the members desire?

Interjection: Of course.

Mr. Foulds: It cannot say no--

Mr. Chairman: The House can do whatever it wishes.

Mr. Foulds: It cannot say no to the subsequent part of Dr. Stephenson's motion, which is that if it neglects to act on our initial recommendation, we have the right--

Miss Stephenson: We would simply go ahead and do it and use whatever means we think are appropriate to do it.

Mr. Chairman: Technically, they could order us not to look at that.

Mr. Foulds: Let it be on their heads.

Mr. Cordiano: There is only one other matter. I do not recall--let me look at it again--whether it is broad enough to cover what the other committee may want to look at. These are probably the most outstanding plant closure examples.

Mr. Foulds: That is why I used the phrase "and without limiting the generality of the foregoing."

Mr. Cordiano: Okay. If we are establishing a select committee, obviously it will have a broader scope to look at other examples.

Miss Stephenson: That is why the opening paragraph says "given the urgency of plant shutdowns."

Mr. Cordiano: I just wanted to point that out.

Mr. Chairman: Are you ready to vote on Mr. Foulds's amendment?

Miss Stephenson: One final suggestion. You have to add Goodyear somewhere because it is not in the motion. The motion you have just accepted replaces Mr. Cordiano's first paragraph.

Mr. Foulds: So Mr. Cordiano's first paragraph should then move down.

Mr. Chairman: No, it is gone altogether. It was taken right out.

Mr. Foulds: It was taken out, so what we should do now is add--

Miss Stephenson: What we can say is, "This committee shall look at as many aspects of the"--

Mr. Foulds: What we have passed so far?

Mr. Chairman: We have passed Dr. Stephenson's amendment to Mr. Cordiano's motion, which is--

Miss Stephenson: Which is just a general--

Mr. Foulds: What is the last wording of that? I am an English teacher; I can help with this.

Miss Stephenson: Come on; it is not that difficult: "in order to assume responsibility for this study."

Mr. Foulds: Mr. Cordiano is then covered because it goes into paragraph 2?

Miss Stephenson: Yes.

Mr. Foulds: "The committee should call before it members of labour, management, the government"--

Mr. Chairman: Relevant to the Goodyear closure.

Mr. Foulds: "And any other persons it deems necessary and relevant to the Goodyear closure."

Miss Stephenson: All right and then you have added your paragraph 2, line 2; your amendment comes in before that.

Mr. Foulds: Oh. You are saying that in there I should add "the government, ministers, ministries involved," all in the first part so that we should add the Ministry of Northern Development and Mines.

Miss Stephenson: Yes.

Mr. Chairman: But the Northern Development and Mines is not very relevant to the Goodyear closure.

Mr. Foulds: It is relevant to paragraph 4.

Miss Stephenson: Yes. That makes it kind of difficult.

Mr. Chairman: You could put it in paragraph 2.

Miss Stephenson: What we should say is "relevant to the Goodyear, Kimberly-Clark, Terrace Bay"--

Mr. Foulds: Just hold on; we are getting too complicated.

Miss Stephenson: Okay.

Clerk of the Committee: May I suggest something here?

Mr. Chairman: Just a minute.

Mr. Ferraro: On a point of order, Mr. Chairman: Can I ask the clerk to type up this thing and can the committee deal with it right after question period for five minutes? It is totally confusing. We have an amendment to an amendment to an original motion. The matter of a few hours would make it much more sensible for everybody.

Mr. Foulds: One of the problems Mr. Cordiano and I have with that is I would like it reported this afternoon.

Miss Stephenson: Right.

Mr. Ferraro: That is fine, but--

Mr. Chairman: The issue is whether we adjourn now until after question period. Mr. Foulds is saying he wants this dealt with now. That is a point of order and not--

Mr. Ferraro: I am having some difficulties understanding this amendment; maybe it is just me. My only other alternative is to go according to the rules, standing order 108(b). Before we vote on it, I would like a 20-minute delay so that I can try to comprehend it to a greater degree and also get the other members--

Mr. Chairman: Is it not possible, Mr. Foulds, that this could be reported later on after routine proceedings and before six o'clock if you can get the agreement of the House to do that?

Clerk of the Committee: Mr. Foulds, this is a motion; it is not a report. Therefore, you cannot report this motion to the Legislature. However, what you can do is to inform the ministries that you have mentioned and the Premier (Mr. Peterson) and the government House leader of your intention in a letter to them. I can produce that very quickly this afternoon.

Mr. Foulds: Is it not possible for the committee to report this afternoon that it has passed a motion? If the motion is passed, that can be reported.

Mr. Chairman: I presume if I had the unanimous consent of the House leaders, I could--

Mr. Foulds: No; Under committee reports.

Mr. Chairman: But you have a report.

Mr. Foulds: A report is simply a report of an action or decision of this committee. It does not have to be a lengthy report. Your report would be, "I beg to inform the House the committee passed the following motion."

Mr. Chairman: I see your point. The chair accepts what you are saying.

Mr. Foulds: If I might, Mr. Ferraro, although it would be a bit awkward, I think we can solve the problem.

Miss Stephenson: If we named the plants in the first paragraph, "Given the urgency of problems related to plant closures and layoffs at Kimberly-Clark, Goodyear, E. B. Eddy," or whatever you want to put in there, for example, then you do not have any problems with the next paragraphs.

Mr. Ferraro: In spite of what my colleague has said, I need 20 minutes to think about it.

Mr. Foulds: Would it not be better if we had it in form so that when the committee reconvenes--

Mr. Ferraro: We can come back before 1:30 p.m. All I am asking for is--

Mr. Chairman: Are you asking for 20 minutes?

Mr. Ferraro: Yes, and then we will come back and deal with it.

Mr. Foulds: Okay.

Mr. Ferraro: That solves the problem.

Miss Stephenson: We will rewrite it.

Mr. McFadden: The House starts at 1:30 p.m.

Mr. Chairman: We will adjourn until 1:23 p.m.

Mr. McFadden: Can I raise something? Are we barred from meeting right after question period? Can we not report back on Monday? We can get this thing properly set up and typed and get the wording cleaned up so we know what we are doing.

Mr. Ferraro: I want to facilitate Mr. Foulds. I do not really care; if you want to report today and we can do it in 20 minutes, that is fine.

Mr. McFadden: Are we barred from recessing to meet right after question period?

Mr. Chairman: As I understand the rules, that would be wrong. I believe if Mr. Ferraro wants the 20 minutes, he has a right to it.

Mr. McFadden: I understand.

Mr. Chairman: We will recess until 1:24 p.m.

The committee recessed at 1:02 p.m.

The committee resumed at 1:31 p.m. in committee room 2.

Mr. Chairman: The meeting is reconvened. Mr. Carrozza, you had a few words you wanted to say.

Clerk of the Committee: Yes, please. To clarify a few matters, the committee could agree to put aside for the moment the three amendments and read the motion as written, accept the motion as it is, then move a motion stating that this motion should be the report of the committee and directing the chairman to present this report to the Legislature.

Mr. Chairman: You are asking that Mr. Foulds withdraw his amendment, Mr. Cordiano withdraw his motion, and we start afresh with what is in front of us. Is that agreeable to Mr. Foulds and Mr. Cordiano?

Miss Stephenson: I withdraw mine as well.

Mr. Chairman: Yours was passed.

Miss Stephenson: Oh. We will reconsider it and withdraw it.

Mr. Chairman: All right. That could be part of the motion to pass this motion. Is that agreeable, Mr. Foulds?

Mr. Foulds: What is happening?

Mr. Chairman: You withdraw your amendment, Mr. Cordiano withdraws his motion and then somebody moves this motion. I do not know who--probably Mr. Cordiano. It would be logical for him to do so.

Mr. Foulds: Joe can move it and I can second it?

Mr. Chairman: Yes. Is that understandable?

Mr. McFadden: We can clean up the wording here.

Mr. Chairman: Do you agree to that, Mr. Cordiano?

Mr. Cordiano: Yes.

Mr. Chairman: So everything is withdrawn and your motion would also include striking out the motion that was passed before the adjournment, just to make it clear. Is that all right?

Mr. Cordiano: Yes, but I am not certain about the intent of the--

Clerk of the Committee: Just read it through, Mr. Cordiano.

Mr. Foulds: If I may say so, in paragraph 1, there is a bit of a grammatical problem. You need "layoffs."

Miss Stephenson: And "closures."

Clerk of the Committee: Please read it and we will make the correction right now.

Mr. Foulds: "To plant closures"--

Miss Stephenson: "and layoffs"

Mr. Foulds: --"and layoffs"

Miss Stephenson: And "wafer" has no "y."

Mr. Chairman: All right.

Mr. McFadden: Is it Kimberly-Clark at Terrace Bay, E.B. Eddy, Nairn Centre?

Mr. Foulds: Right. Then you have Etobicoke in brackets--perhaps we should bracket all of the places.

Miss Stephenson: Yes, instead of "at Terrace Bay," Nairn Centre and Terrace Bay should be in brackets. Thunder Bay and Sudbury should also be in brackets.

Mr. Foulds: Right

Mr. Chairman: Can someone explain to me what waferboard is?

Miss Stephenson: Waferboard is made of particle board.

Mr. Ferraro: It is a composite of particle board.

Mr. Foulds: They now use compressed chips instead of plywood.

Mr. Chairman: So we are talking about a small "w" and a small "b."

Miss Stephenson: No, no; it is waferboard. It is the waferboard plant of Great Lakes.

Mr. Ferraro: Actually, it would be one word; it would be small "b"

Miss Stephenson: Waferboard, yes.

Clerk of the Committee: The word "waferboard" is actually here at the bottom--the "waferboard layoffs."

Mr. Chairman: Waferboard--all one word--plant, Great Lakes Forest Products.

Miss Stephenson: That is right.

Mr. Foulds: In the second last line of that paragraph, there should be a period after problem. Then a new paragraph starts with a capital, "Should the Legislature fail to re-establish this select committee by December 15, the standing committee...." That leads right in.

Miss Stephenson: "...the standing committee on finance and economic affairs."

Mr. Chairman: She said there is no "y" in it.

Miss Stephenson: There is no "y" in wafer. It is wafer as in biscuit.

Interjection: As opposed to "wayfer."

Mr. Chairman: All right.

Miss Stephenson: The second paragraph begins, "Should the Legislature fail to re-establish the select committee by December 15, the standing committee on finance...." That is the rest of the sentence.

The third paragraph is, "The committee should call before it members of labour and management and cabinet ministers and ministry personnel"--you do not say "government cabinet ministers" because cabinet ministers are members of the government--"involved and/or responsible, such as...and any other persons deemed necessary and relevant to the closures..."

Mr. Ferraro: Relevant is--?

Miss Stephenson: "R-e-l-e"--

Mr. Chairman: Should labour and management be small "l" and small "m"?

Miss Stephenson: Yes.

Mr. Ferraro: Who cares.

Mr. Foulds: I am not concerned that much. People will understand.

Miss Stephenson: In the third paragraph, I wonder whether it should say, "The committee should examine as well the possibilities for maintaining ongoing operations at the various sites" rather than just "the Goodyear site."

Mr. Chairman: That is for trips.

Mr. Foulds: --"the Goodyear plant--"

Mr. Ferraro: "--and any others."

Mr. Foulds: That would be Goodyear and other plant sites.

Miss Stephenson: "Maintaining ongoing industrial operations at Goodyear and the other plant sites."

Mr. Foulds: After "Goodyear plant" in the next line, "at the Goodyear plant and...."

Miss Stephenson: Why not say "adjustments that will be required to be made by workers," because we are talking about all the workers?

Mr. Foulds: Yes. Cut out "at the Goodyear plant."

Miss Stephenson: Not "with a view to"--"that will be required... under the Employment Benefits Act."

Mr. Ferraro: That is all right.

Mr. Foulds: Yes, "under."

Mr. Cordiano: "Under the Employment Benefits Act."

Miss Stephenson: "And determine potential changes to the act which could be beneficial to the workers affected."

Mr. Cordiano: "--that will be required to be made by the workers under the Employment Benefits Act--"

Miss Stephenson: "--and determine changes to the act which could be beneficial to the workers affected."

Mr. Cordiano: "Determine changes to the act," or "potential changes to the act."

13:40

Mr. Ferraro: The final paragraph should read "E. B. Eddy," not "E. D."

Miss Stephenson: May I suggest that, given the additions to the first paragraph and the modifications to paragraph 4 as it currently stands--remember the second paragraph begins, "Should the Legislature"--we might modify rather dramatically the final paragraph and say, "And further, the committee examine in the same manner and with the same urgency any other plant closure or layoff in the province or especially in northern Ontario."

Mr. Foulds: "Same urgency any other recent layoffs"?

Miss Stephenson: Right. Okay? "In southern or northern Ontario."

Mr. Foulds: Just "in Ontario."

Miss Stephenson: "In Ontario." Okay. Then we can do without--

Mr. Foulds: Just a minute. Maybe we should put "in northern or southern Ontario."

Miss Stephenson: I think so.

Mr. Chairman: If you say "northern or southern," why do you not say "Ontario"?

Mr. Ferraro: What about eastern Ontario?

Mr. Chairman: Just say "Ontario."

Mr. Ferraro: "All of Ontario."

Miss Stephenson: Okay; "in all of Ontario."

Mr. McFadden: North, south, east, west Ontario.

Mr. Chairman: "Or any other recent layoffs in Ontario."

Mr. Foulds: I would like some emphasis on the northern layoffs because we have mentioned particular companies.

Mr. Ferraro: We are saying "Ontario." If they lay off 1,500 people in Guelph, I am going to be just as concerned about that. I think by saying "Ontario," you are covering all the bases.

Mr. Foulds: "Any other recent layoffs in Ontario."

Clerk of the Committee: You have to understand we have a discrepancy here.

Miss Stephenson: Yes, it is all right. I am entertained--

Why do we not say, "And further, that the committee examine in the same manner and with the same urgency any other recent layoff, particularly in northern Ontario"?

Mr. Mackenzie: I think the emphasis is useful because more often than not it is a single industry affected in Ontario.

Mr. Foulds: Yes, that was my concern because I think that has cropped up.

Miss Stephenson: Then you can eliminate from "such" down.

Mr. Chairman: Take that right out?

Mr. Foulds: Yes, because we have mentioned it above in paragraph 1.

Clerk of the Committee: Could you give me that or read it into the record so we can vote on that and have it agreed on?

Miss Stephenson: Okay. Shall we read it into the record?

Clerk of the Committee: Please.

Miss Stephenson: Since Joe is going to move it and Jim is going to second it, I will read it into the record.

Mr. Chairman: That sounds fine.

Miss Stephenson: "Given the urgency of the problems related to plant closures and layoffs at Kimberly-Clark, Terrace Bay; E. B. Eddy, Nairn Centre; Goodyear Tire and Rubber Co., Etobicoke; waferboard plant, Great Lakes Forest Products, Thunder Bay; Falconbridge, Sudbury, etc., the standing committee on finance and economic affairs recommends that the Legislature re-establish by December 15 the select committee on plant closures and shutdowns to examine all aspects of the problems.

"Should the Legislature fail to re-establish the select committee by December 15, the standing committee on finance and economic affairs will forthwith suspend all planned activities to assume these responsibilities.

"The committee should call before it members of labour, management and cabinet ministers and ministry personnel involved and/or responsible, such as the Ministry of Labour; Ministry of Industry, Trade and Technology; Ministry of Northern Affairs, and the Premier's office, and any other person deemed necessary and relevant to the closures in order to obtain as much information about the closures and layoffs as possible.

"The committee should look at the possibilities for maintaining ongoing industrial operations at the Goodyear and the other plant sites. In addition the committee should consider the adjustments that will be required to be made by workers under the Employment Benefits Act and determine changes to that act which could be beneficial to the workers affected.

"And further, that the committee examine in the same manner and with the same urgency any other recent layoff, particularly in northern Ontario."

Mr. Foulds: Sounds good to me.

Mr. Chairman: Does everyone understand it? It is moved by Mr. Cordiano, seconded by Mr. Foulds. Any discussion?

Mr. Ferraro: I am supporting the motion but I want the record to show that I do have some apprehension about the work of this committee that was previously scheduled, not being able to do it if in fact the government does not reinstate--

Mr. Chairman: The chair shares that apprehension.

Mr. Ferraro: --the select committee on plant closures and shutdowns.

Miss Stephenson: So do we all.

Mr. Chairman: As do other members. Is there any other discussion?
All in favour? Carried unanimously.

Motion agreed to.

Mr. Chairman: Mr. Foulds moves that the chairman report the passage of this motion to the House this afternoon under committee reports.

Is there any discussion? All in favour? Carried unanimously.

Motion agreed to.

Mr. Chairman: That being said and done, I gather from the dates in this motion that it does not alter our agenda for next Thursday.

Miss Stephenson: Next week? No.

Mr. Chairman: The Treasurer (Mr. Nixon) plans to be here to deal with estimates next Thursday.

Mr. Foulds: At 10:15.

Mr. Chairman: Yes. I will get there. I want to remind committee members that we are dealing with estimates next Thursday.

The committee adjourned at 1:45 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION
ECONOMIC AND FISCAL REVIEW

THURSDAY, DECEMBER 4, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Miller, G. I. (Haldimand-Norfolk L) for Mr. Cordiano

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

McClellan, R., Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 4, 1986

The committee met at 9:16 a.m. in committee room 1.

ORGANIZATION

Mr. Chairman: I see a quorum. The schedule for this morning was to deal with the estimates of the Ministry of Revenue. The day before yesterday I was informed by Mr. Nixon in his role as House leader that there was some objection from the opposition critics to appearing today because they were dealing with a bill in another committee and traditionally that would take precedence over estimates. Apparently, that had gone unnoticed until this week.

When that occurred, it seemed appropriate to try to schedule the estimates of Management Board of Cabinet for this morning. I was attempting to do that until yesterday afternoon. There were two problems. First and understandably, Management Board was not prepared because they thought they were not being dealt with this week. Second, and similarly, the opposition critics were not prepared. In view of the fact they only received their material yesterday, that was understandable.

I debated whether to cancel today's meeting, but we have so much on our agenda that it seemed more appropriate to have a meeting today to deal with some of our concerns, particularly the follow-up on the excellent budget review we had last week. I prevailed on David Bond to prepare some material to deal with that today. We also have Ray McClellan with us today. He is the new person who has been seconded to our committee from the legislative research service. He was just hired by legislative research at the beginning of this month specifically to work with our committee on budgetary matters.

I hope we can spend most of this morning dealing with that. Because Mr. Cordiano has to be somewhere else later this morning, he has asked me to deal with the issue of the resolution that was passed last week and to report it to the House myself. The motion asked to have the plant closures committee reformed.

As the members are aware, the reaction from the government House leader was that the government whip simply does not have the personnel to provide for a new committee. He immediately indicated in the House that it was the view of the government party that this committee should deal with the matter itself. While we gave the House leaders until December 15, 1986, to reform that committee, it is obvious from the reply that we do not really need that long. We indicated in our resolution that we would deal with this matter ourselves if the Legislature did not reform that committee. Therefore, perhaps we can deal fairly briefly with that matter first.

Mr. Mackenzie: Correct me if I am wrong, but I think it was implicit in both the motion and the discussion that if the government was not prepared to re-establish the plant shutdowns committee, we would deal with it, but not with all the many other items, which are already too many, that are on the table. I thought that was very clear in the discussions we had. It was our view in those discussions. I do not think we need to wait until December 15, 1986. If the motion that was put and passed in this committee has been clearly

rejected, then all we should be dealing with is the matter of Goodyear and the plant shutdowns.

Mr. Chairman: I agree with everything you have said, Mr. Mackenzie, except for the suggestion that we would not deal with the other matters on our plate. I feel the committee is prepared to place this ahead of all the other matters for our committee, but I hope the committee is not abandoning our role in budget preparation in particular. It is a question of how we are going to deal with this substantively and still have some role in budget preparation before the budget preparation gets too far along for us to be at all relevant. I understand the thinking is that a budget will come down in May

Mr. Mackenzie: With all due respect, I think it depends on the seriousness or priority that is given to the situation that occurred at Goodyear, which is a potential at other plants in this province. Practically, if we are going to deal with it seriously and call in people to discuss what could or could not be done or what the options are in these situations, we are not going to have time to do some of the other work.

That is the point we were making, and I think unanimously in the committee, in requesting the re-establishment of the plant shutdowns committee. It would be a bit of a farce to say, "We are going to take seriously the Goodyear issue and the question of plant shutdowns, and at the same time we are going to do something as important as budget preparation or anything else that is on the table." That is why I make the point that we ourselves are negating the very intent of our resolution if we think we can take on all these other items.

Mr. Ferraro: I think Mr. Mackenzie is right. It is a choice of one or the other. Admittedly, speaking for myself, I supported the resolution put forward by Mr. Cordiano and Mr. Foulds's amendment on the basis that it is a serious issue, and I was sincere when I felt that it was something that should be looked at.

Mr. Chairman: Can you lean towards the mike?

Mr. Ferraro: The government House leader essentially said no, so this is the choice. I supported it, not from a lack of interest but from the standpoint that I felt sincerely that the government might give serious attention to setting up a plant shutdowns committee. Having said all that, the committee will know that I had some reservations, as did others, about scenario B. They said no. What alternatives do we have? Where I have some concern is that the original intention of this committee in my view is every bit as important, if not more so, than the secondary intent of the resolution.

Therefore, we have alternatives. Either we dispense with the original mandate of this committee and go in essence as a plant shutdowns committee, or we can possibly set up a panel, as was discussed, to deal with it, or you can say the resolution does not hold any water because--let us not kid ourselves--if we are going to get into this we can forget about anything else. Assuming that we have dispensed with the idea of a panel and assuming we know we cannot have a plant shutdowns committee, we can forget about the mandate of this committee and the other important items to be dealt with.

When it comes down to the bottom line, if we cannot handle it in the way of the panels and if I had to choose personally whether to go into the plant shutdowns area or deal with the original mandate of the committee, I would

sooner deal with the original mandate of the committee. That is not to say I do not think the other issue is important.

Mr. Chairman: If, as chairman, I can interject briefly, the principal purpose of this committee is to deal with budgetary matters. I will leave the statement at that.

Mr. Mackenzie: I have tried to be brief and I will continue to try to be brief. I do not think we can have the concern Mr. Ferraro indicated last for a period of about two weeks. I think the shutdown at Goodyear and the potential in plant shutdowns are that important. The point that has to be made is that I am not sure what our chief and primary mandate is, whether it is the budgetary review, which is important, which all of us wanted and which the Treasurer (Mr. Nixon) indicated he wants, or whether it is corporate concentration, which was referred to us. They were close to being on a par, whichever was the key one.

We ended up with corporate concentration, which we were well into but not finished with; we have only looked at the financial area. We had the budget review before us. Over the objections by many members of this committee, which were stated extremely strongly, we ended up getting estimates put on our plate. We ended up getting Treasury bills put on our plate, which was utterly ridiculous. Then there was the suggestion made in the House that we take a look at the Goodyear situation. What they have tried to do in terms of what comes to this committee has become a bit of a joke.

We have not been tough enough to say, "That is not what we were set up to do." That has to be very clear. We can do what we said in the motion that was moved with two amendments, by Dr. Stephenson as well as by my colleague Jim Foulds, to the original motion by Mr. Cordiano last week. That is what we are dealing with and that is all we are dealing with. I think that is where we are at. That is my way of reading this motion. If not, we are still back where we were before. If we go to budgetary review, what do we do with corporate concentration? What do we do with the Treasury bills? What do we do with the estimates? This issue has to be sorted out because we now are in a ridiculous no-win situation.

Ms. Hart: Can I be reminded of the rules for estimates? Am I correct that before this session can end, so many hours of estimates have to be debated or that the estimates by agreement have to have been dealt with?

Clerk of the Committee: The estimates must be completed before the House prorogues. My understanding is that we will adjourn on December 18 and come back on January 12. That means it is not prorogued.

Mr. Cordiano: We do not know that.

Clerk of the Committee: They must be completed before we prorogue this session and before the next session.

Mr. Chairman: As I understand it, there is no requirement that time be spent on them. It is simply that they be passed in committee, or if they are not passed in committee, they can be passed by the House.

Clerk of the Committee: The order of reference given to us is that we complete the estimates. The estimates of the Ministry of Revenue have seven hours and Management Board has five hours. The rules state that it is not

necessary to take the seven hours but at least some time must be given to them. You can complete them in an hour if that is the wish of the committee.

Mr. Chairman: It is my understanding that the parties have agreed they will complete each of these estimates in approximately one day. It is not that they would be bound to that, but that is the present estimate of time that would be spent.

09:30

Mr. Cordiano: We have to look at the direction this committee is going to take. The point has been made that we have had a number of things referred to us. We should sort them out and try to eliminate certain items that may not be as crucial and important as others. Of course, everything is important, but we have to deal with things that arise from time to time that are of an urgent nature. I made this argument before.

When this committee was initially formed, it was not bound to one item on its plate referring to the budgetary process. It was my understanding when we formed this committee that we would be looking at a number of selective topics that arose and that there would be time for this committee to look at those items.

It would be nice to have another committee. That is impossible. I think it is of urgent value to look at the situation with plant closings. Possibly we should have a subcommittee look at the ways in which we could start that process, clearing the deck for this committee to begin that process. If we have to look at estimates, we should do it as soon as possible, get them out of the way and then move on to this subject, which I think is urgent.

Mr. Chairman: I can indicate that your staff has done some work in preparation for that. I suggested to the clerk that he contact Goodyear. In fact, I think Goodyear contacted him. They have retained counsel and they are preparing to appear before the committee. With regard to the northern companies that have been suggested in the resolution, it might be appropriate that the committee take one of these companies and focus its attention on that company as an example of the problems in the north, which are somewhat different from the problems in the south.

Mr. Ferraro: I will try to be brief. Mr. Cordiano hit on the very point that I need some input on from the other parties. As you know, I stated that if we have a choice, if we are going to go into plant shutdowns or if we are going to stick with the original mandate, albeit somewhat diversified, my choice is that we stick with the original mandate. Having said that, I would like a specific response from the opposition parties, or from the other members on the committee, as to whether they think the idea of a subcommittee or panel is feasible. Is it an all-or-nothing situation committee-wise as far as they are concerned?

Mr. Haggerty: As other members have suggested, if you look at the resolution, you have about six months' to one year's work on plant shutdowns alone if you get into it in detail. I think of the situation in 1977 when I was a member of a select committee dealing with the Inco layoffs in the Sudbury basin. We spent about four months on that alone. When we get into this area, we could have this committee tied down for almost a year.

Somebody suggested that another committee should be formed within this committee, perhaps even of three members, to sit down and get the wheels in

motion. Goodyear in Etobicoke is going to take some time. There is a problem in northern Ontario, particularly in the Falconbridge area. That is going to take a little time to get into, too.

Even if whole committee was on this thing, you are looking at about a year's worth on this alone. You will probably have to have legal counsel and additional staff in this area. These things all have to be set up. It is going to create problems with the original intent of the committee to deal with the mandate of the Treasurer that this committee should be reviewing government policy in the area of taxation and financial institutions and budgetary matters.

Mr. Chairman: Incidentally, yes, we would have a lawyer--

Mr. Bond: From legislative research services.

Mr. Chairman: Besides Barbara Cotton.

Mr. Bond: Yes.

Mr. Chairman: To make sure I understand what you are saying, Mr. Haggerty, you are saying that there perhaps should be a panel set up to look into this and report to the committee, this hearing being an ongoing one after the budget work is finished.

Mr. Haggerty: They would report back to this committee.

Mr. Chairman: Yes.

Mr. McFadden: Dealing with one matter that has just been raised, for example, looking at Goodyear and then at one of the other closures, I do not think we can really get away with doing that. Who is going to choose between Thunder Bay, the problems with Great Lakes Forest Products, or Sudbury with Falconbridge, or Terrace Bay with Kimberly-Clark? I do not think you can feasibly exclude the layoffs and the concerns in one community in preference to specializing and looking at another community. I do not feel that is a feasible approach.

If we were trying to do a case study or something, that could be valid; but it seems to me we are looking at layoffs across the province, which conforms with the resolution passed at our last meeting. I do not think we can limit it to a couple of communities only.

We will have to face whether or not the committee system in this province can mature to the point where it can deal with more than one thing at a time. In the United States, one reason committees work pretty effectively is they really do use subcommittees. The different subcommittees go out, do their research and report back at full committee hearings. Then the full committee either adopts it or it does not. It allows their committees to function. If every single congressional committee in the US heard every single person on every single thing, the government would grind to a halt.

That is starting to happen in Ottawa. As Mr. Blenkarn said, referring to his committee in Ottawa on finance and economic affairs, "The mandate of this committee as it was originally formed probably could enable us to carry on in the traditional model, with all of us sitting here just dealing with budget submissions and perhaps the odd estimate and one or two bills a year. But as soon as we start doing what we are now doing, going into studies on corporate

concentration on the one hand while moving into studies of plant closures, we cannot do it in the traditional committee model."

We are kidding ourselves if we think we can do it. We do not have the time and I do not think it is realistic. Past and existing experience of other jurisdictions would indicate that is not the way to go. Otherwise, we will be totally emasculated and will have a backlog of work we have not done, and bits and pieces we have started and not completed. It will be embarrassing to this committee and make a farce of the system.

We have to consider some innovative ways to deal with this kind of work load or else we jettison part of it and not attempt to do it. Look at the situation we are in right now. We are part way into corporate concentration. We know we do not have enough information to finish that. We have Bill 116 referred to us--we are a logical committee to do that because we have been dealing with the financial institutions--but we have not started that yet. We have not even begun the estimates; I think they have been postponed for another week.

Mr. Chairman: They have been postponed because, for various reasons, those ministries were not ready to proceed.

Mr. McFadden: I gather there are various problems. That has not even begun yet. We are now moving on to plant layoffs. We have begun the budget review process. We heard from the Treasurer (Mr. Nixon) and his officials last week. I understand various groups want to come here and so on and so forth. If this committee is going to establish any credibility or even be able to do a decent job on anything, we have to figure out how we are going to organize ourselves internally. I suggest we definitely look at the subcommittee route as one of those routes.

The problem we face right now, though, is that while the House is sitting, we can make virtually no progress on anything just sitting here for a couple of hours on a Thursday morning. The one recommendation I have made to our House leader--I have talked to you, David, I have talked to Jim Foulds and to other members about it--is sitting Thursday afternoon as well. I do not know how inconvenient that is for people here. I have House duty that afternoon. I checked the roster on the board. I hope it is up to date, but I did not notice any members of this committee sitting on other committees that normally sit Thursday afternoons. I may have missed somebody. If I have, I am sorry. I tried to look to see.

One of the simple suggestions I think we should go to right away is to sit Thursday morning and afternoon. At least Thursday we could get something achieved with the extra couple of hours left to us. Thursday is a terrible day, because half the time part of this committee is up in the House on private members' business. This situation is not workable the way it is now established.

09:40

I know when the House adjourns in the winter, we can get on with a lot of things, but I feel we have to take a very careful look at how this will function. Going with the subcommittee is certainly one possibility; expanding into Thursday afternoon is another.

It will be hard for us to settle all this today. I suggest between now and next Thursday, our scheduling committee should meet with proper authority

from the relevant caucuses and come up with a very specific proposal for this committee and how we will deal with this. If it means changing how we organize things a bit, we should get on with it. Otherwise, we will get nothing done here or we will be doing things in such a half-baked manner it will not be worth being a part of it.

Mr. Chairman: You spoke last week about a subcommittee being set up with regard to plant closures. This morning, Mr. Ferraro asked the other parties to state their views. Are you indicating you favour that or are you speaking on behalf of the Conservative Party?

Mr. McFadden: We have not caucused specifically on this point but I think it is pretty safe to say, from talking to the other members, that the subcommittee route is one we should look seriously at.

Mr. Taylor: I suppose, logistically, we could solve the problem pretty simply. However, that is on paper. You and I know, Mr. Chairman, the members are very busy with other legislative duties, committees, caucus meetings and constituency work. We are also suffering from an inclination on the part of the House to make this committee a legislative garbage can. It is not dealing with some of the matters I perceived it would be dealing with when I was appointed to the committee.

Historically, there was a select committee set up on economic affairs and there was some concept of what that was to embrace. The time given to that original committee, in terms of its partial mandate to deal with free trade, was constrained, in my view. We had to extend it a little to get a report in. Instead of this committee carrying on as a standing committee to discharge some of the original mandate, now we have become the target, serving as a slop pail for things the House leaders do not know where to dump.

I do not know where we will find the time. It is okay to talk about subcommittees. I agree, you can look to the US or to Ottawa. We have 125 members in this assembly. If you look at the division in terms of political parties, you will see there are constraints because each party has to be represented. They are traditionally represented in proportion to party representation in the House. In effect, we are mini-assemblies as committees. Now you are going to further subdivide or cell-divide these committees. I think you are spreading yourselves pretty thin and I am afraid you will deal with matters in a very superficial way.

Subcommittees will be adopting the work of the hired help. We appreciate that support staff; it is essential. We are favoured with excellent people. However, I am saying the members themselves will not be able to address many of the issues in a thoughtful way. It concerns me that we will be in a position of furthering the adage that that justice delayed is justice denied. We have to order our own agendas as committees. We have too many priorities. If everything is a priority, you do not have any priorities any more. I am afraid we are reacting to issues as they come up day by day and we are being distracted.

I am not suggesting the plant shutdown issue is not important. It was important years ago and is even more important today in view of what is happening around the world. Surely this committee cannot take on the responsibility of the government in trying to resolve that problem and, in trying to resolve it, set up a separate panel of three members, one from each party. You will not have any more members. You will not have a New Democrat to sit on this committee. We are not in the same position as larger governments

that may be trying to find committee work for their members and are able to better use the talent of their members.

I am afraid some of us may lose interest in the work of this committee if we do not start looking at our original mandate and getting on with that job. We should not try to assume that responsibility. If we try to assume that responsibility, we will have to find more sitting days. I do not know where that will spill over. We will have to spread ourselves around into subcommittees. The staff will be writing the report and the members will not even be there. They will review the report, presumably the whole committee will adopt the report, and then what have we got? That is hardly representative of the thinking of the elected members.

I throw that out to the committee. I question the feasibility, although I subscribe to the logic. I am quite disturbed about the things we are now being asked to deal with, which ensure our deviation from our original mandate.

Mr. McFadden: There is one thing I would like to say about the subcommittee. My feeling is that we can break it down into, at the most, two Liberals, two Conservatives and one New Democrat. That was my contemplation.

Mr. Chairman: That would leave two, two and one for the regular committee.

Mr. Cordiano: That is right. I do not see any reason we cannot do that.

Mr. Mackenzie: I do not want to go over the ground I have covered about the indefensible and unworkable position we are in now, given what has been put on this committee. I always have some reservations when I agree so strongly with my colleague Mr. Taylor.

Mr. McFadden: It is a love affair.

Mr. Mackenzie: No.

Mr. Taylor: I think you are using the same arguments but have come to different conclusions.

Mr. Mackenzie: I want to make a point or two on the points that have been raised, starting off with the question from Mr. Ferraro about the panels. I do not subscribe to it. One of the strong arguments is the very argument Mr. Taylor has made. The strength--at least as I see it, with all the frustrations that have been in the committee system in the 11 short years I have been around this place--has been the degree of participation members had in the various committees, whether or not they won their points. I think of pensions, Inco and plant shutdowns, and I remind people that was a committee that never reported. The unwritten report that we came out with was about the only formal report on it because it was disbanded before it could report, in spite of the important work it had done.

09:50

There is a danger there will be more staff than member participation if we get into the panel deal. When you have smaller numbers, there will not be the input into it. Maybe things are changing so that some time or another we are going to have to take a look at that. I do not know, but I was thinking of my own reaction and that of my caucus. No way would we agree to a panel on,

for example, three of the five items that are before us. Corporate concentration is too big and important. It is not something we want left to staff, who, in many ways, have expertise we do not. I recognize that, but it is a political decision that has to be made, based on whatever evidence we get from them, and we have to make the report. Budgetary review: no way would I put that out to a panel. Plant shutdown: no way would I put that out to a panel.

Presuming all these things were on our table, the estimates and Treasury bills, maybe we would consider it. They are probably the last ones to think about putting out to a panel, but maybe we could reach some agreement there.

At the moment, I do not think that is the approach. I am not as enamoured of the American system as my colleague the member for Eglinton (Mr. McFadden). I like our system better. We may need revisions, but I am not quite so fast to pull the committee system and the panel system he is talking about. In any event, while committees have the right to order their business, this committee is not the body to decide we will make any fundamental change in committee procedures. That is something that will be done by the House leaders or by the standing committee on the Legislative Assembly in reviewing the rules and the way we do business.

We can make a suggestion to them if we want, but we do not make that final decision. It is not made by a committee, when you are looking at fundamental change in the way committees operate in this House. We are a little bit off base in trying to make that decision.

Mr. Chairman: Perhaps I should have made that clear to the committee. If the committee were to decide we wanted to set up a panel, we would have to go to the House leaders with that proposal.

Mr. Mackenzie: I think you are opening up the House leaders and probably the standing committee on the Legislative Assembly for a whole discussion on it. I can tell you that would be an interesting and probably fairly heated discussion for reasons that have been raised by myself, by Jim and by others in terms of whether we want to take that approach.

Having said that, and responded in that way to what Rick asked, let me also say very clearly that we outlined the ridiculous situation we are in. I want to have all of you take a look again at the second paragraph in the resolution that we passed unanimously two weeks ago. It said: "Should the Legislature fail to re-establish the select committee by December 15, the standing committee on finance and economic affairs will forthwith suspend all planned activities to assume these responsibilities."

I am saying we are almost, as far as I am concerned--unless we do not mean what we say ourselves when we get a unanimous recommendation by a committee--out of order in what the hell we are doing here.

Mr. Chairman: I accept what you said, Mr. Mackenzie. You asked me to correct you if that was not the case, and that is the case. That was what was indicated. I felt that essentially we had until December 15 to get going on that. The planning was to perhaps get going as early as next week, December 11, if the committee so desires, but that we could still deal with budgetary matters today, since we really have not set up on it.

Mr. Mackenzie: Just in response, I said that, as you will recall.

Mr. Chairman: I do accept that you said that, except I am hearing from the committee today that if we did that and we did not have a panel, we may as well forget about dealing with the 1987 budget. That may have some ramifications for this committee, in view of the amount of planning that has gone into it.

Mr. Mackenzie: Those are serious points. The only point I made was we are almost out of order. I did acknowledge December 15 but, as you pointed out as well, our recommendations were pretty well rejected. I am not sure then that even December 15 is the operative part of that motion. Inasmuch as this recommendation we passed has been rejected, I am not really sure we are not now totally out of order here in a technical sense. I am not the rules expert.

Mr. Chairman: That is why I thought it was in order to discuss the matter now.

Mr. Mackenzie: Otherwise, we were not very serious in that resolution. That is the point I am making.

Mr. Chairman: Fair enough. I do not want to go on for ever, if someone has a motion of some sort. I have Mr. Cordiano, and I know you want to leave. If someone has a motion. Otherwise, we can bring the discussion to a close.

Mr. Cordiano: Very briefly, I am looking at the resolution. It was never the intention to turn this into a plant closure committee, because we knew that would not be feasible. Given the constraints--

Mr. Mackenzie: It was your motion.

Mr. Haggerty: It was changed originally, though.

Mr. Mackenzie: It was not as broad, but it was your motion.

Mr. Cordiano: It was my motion but it did not say this committee will definitely look at plant shutdowns and closures. The motion does not read that way, if you read it properly. Having said that, I think it is important that we continue and commence our initiative of looking at plant closures immediately. I think it is urgent. We should set some time for that. It is inevitable that we are going to have to look at the situation.

You can argue that we can have a committee; all it will be doing is looking at plant shutdowns and closures. I hope that will not be the case but I fear we have to look at some of these situations. They are emerging whether we like it or not. We have to try to come up with a period when we will look at the plants in question. That could take some time, but I think we have to try to limit that time. We are not going to do everything; we are not going to be all things to all people. If we set some time aside, starting next week or the week after and carrying on into winter, January or February, when the House is not sitting, we can accomplish some very meaningful work and move on from there.

I do not see how we can do this any other way. If we do not have agreement that we should subdivide into panels, then I do not see any other way. There are a number of things on our plate. We have to prioritize. Mr. Taylor pointed that out. It is a question of coming up with priorities.

Mr. Chairman: I think Mr. Taylor's priority is a little different from yours and Mr. Mackenzie's.

Mr. Cordiano: Just a minute. What we are talking about is the mandate of this committee. We constantly go back to that point. It was my understanding initially that the mandate of this committee would be to look at budgetary items and a number of other relevant issues affecting the economy of this province. To me, plant shutdowns and layoffs are very important. I would put those on a first-order priority.

Mr. Haggerty: As I mentioned before, if we were to drop all our other priorities and get into the plant layoffs, it would take us a year to cover the ball field in the first paragraph. You might as well forget about all the economic and financial institutions that are supposed to appear before this committee and get that report done.

The only measure I think we can take is that we either appoint a subcommittee of this committee to review either one of the issues there--that is the mandate the Treasurer has put out to us--or get into the one in the resolution put forward a week ago and endorsed by all committee members. That is the only way you are going to resolve the issue.

If you drop the other ones, which are key, important things dealing with economics, that would include employment throughout Ontario and take in all other factors related to the direction the economy is going. I find it is almost impossible, as Mr. Taylor says, for this committee to continue with the mandate we have now and what has been handed down to us by the House leaders to review.

If you want to deal with the matter of plant layoffs, then you are going to have to take the route of a subcommittee. That is the only way. You cannot hold back all the other areas of the mandate of this committee. It is difficult, but it is one of the problems when you have a minority government: there are not enough members to go around.

You can come back here and sit on a Friday to deal with some of these issue or you can sit in the evenings.

Mr. Ferraro: Being a politician, and speaking for myself, I do not want to go on at length and talk about how sincere I am about looking after the original mandate as I interpret it or how much concern I have about jobs and job layoffs. I could speak for half an hour on each. The bottom line of the situation, as I am hearing it from the New Democratic Party, is that it is not supportive of the idea of a subcommittee, which essentially brings this committee to a choice, in my view. Either we go ahead with the original, albeit somewhat confused, mandate--and that is something that can be addressed later--or this committee becomes a plant shutdown committee. Perhaps I am being very simplistic. If the New Democratic Party is not interested, it is going to be a complete farce.

10:00

Mr. Chairman: Any resolution this committee passes may not get past the House leaders.

Mr. Ferraro: Without the co-operation of the members of the NDP, the idea of a subcommittee is nonsensical. They have very strong concerns against that idea. The decision is very simple. Either there is going to be a plant shutdown committee or we are going to go into the original mandate of the committee. Mr. Mackenzie is right. The second part of that motion said we were

going to suspend all activities. When I did that, I thought the idea of a separate committee being formed by the House was viable. Assuming that was not feasible, I thought plan B was that a subcommittee could deal with it to a greater degree. That is not what the motion says, but I say that quite frankly.

Mr. Chairman: The chair shared your thoughts on that at the time.

Mr. Ferraro: Having said all that, in conclusion, I move that the committee go ahead with its original mandate.

Mr. Taylor: Can you clarify that?

Mr. Chairman: He is moving that the committee go ahead with its original mandate; that is, the resolution that was passed last week will be superseded by the resolution that is now on the floor that we give the budget priority, which is what you were speaking to.

Mr. Ferraro: In other words, we forget the plant shutdown committee.

Mr. Taylor: On a point of order, Mr. Chairman: We have a resolution that was unanimously passed by the committee.

Mr. Mackenzie: And accepted by the House.

Mr. Taylor: That resolution provided in a crystal clear fashion that if the House saw fit not to appoint a separate committee to deal with plant shutdowns, the alternative was for this committee to suspend its other agenda and deal with plant shutdowns. That is how I understand that resolution. That is clear to me.

The House saw fit not to appoint a committee. It rejected this committee's recommendation, which means the House accepted the committee's conclusion to proceed with the plant shutdowns matter and suspend all other work. The House made the determination that it was fine for this committee to give plant shutdowns the priority. It made that determination in its considered opinion and infinite wisdom, as some people say. That is what it decided.

Now we are faced with dealing with the integrity of our resolution. A bargain is a bargain. An understanding is an understanding. As a point of order, can we reverse that resolution now? If we can, does that vote have to be unanimous? I think it would have to be unanimous to reverse that.

Mr. Chairman: It is the view of the chair that a resolution can be reversed by a new resolution passed by this committee. It does not have to be unanimous.

The clerk has not only a clarification but also a game plan.

Clerk of the Committee: I suggest the committee give some thought to arranging its schedule in such a way that it can do all the things before it.

Mr. Haggerty: You are going to make possible the impossible.

Clerk of the Committee: If you were to plan to give the estimates one and a half hours each next week and then carry those estimates, you could complete them in one day. On December 18 and each week following, you can look at each corporation in your mandate. You can look at a different corporation

every Thursday, beginning with Kimberly-Clark, then E. B. Eddy, Goodyear, the waferboard plant and so forth. You can plan for the budget review in between those sessions. I understand the House will prorogue in February. We have enough time to plan for four weeks following that for the budget review, inviting witnesses to present their briefs before this committee--

Mr. Ferraro: What about corporate concentration?

Mr. Mackenzie: That implies taking on all the load we have, however Mr. Carrozza tries to slice it up, and it does not make any sense.

Mr. Chairman: It implies less thorough investigation of plant shutdowns than some members of the committee have suggested, but let us hear him out. Go ahead.

Clerk of the Committee: Mr. Mackenzie, to have them each Thursday will give us four days to prepare our briefings on the company appearing. The staff can present you with all the information we can gather and then you can have the corporations make their presentations before you on Thursday mornings. You can ask them questions and why certain things have happened. We can continue to do that each week.

Mr. McFadden: Are you assuming we are going to do this in two hours on Thursday mornings, or are we going to try to get at least the right to Thursday afternoons?

Clerk of the Committee: As I said, this is a suggestion. If you wish to have extra hours, you have to move a motion. The motion will go before the three House leaders and they will decide on it. That is your decision, but at least it is something for you to think about.

Mr. Chairman: It is a suggestion that has some merit and it is relevant to Mr. Ferraro's motion.

Mr. Mackenzie: We are not playing tiddlywinks and no matter how we schedule it, the kind of a schedule we have is absolutely unacceptable.

Before we vote on Mr. Ferraro's motion, let me say I share some of the concerns Mr. Taylor has. I recognize and I am one who has always argued the committee can set its business. However, I also would argue that after fairly serious debate last week, we issued a fairly serious report. It recommended a select committee be set up, which I wish they had done and I still think is a possibility. I am darned sure our members hoped they would set up the committee. I am not sure about other members of the committee, but from some of their comments, I suspect they agree with us.

There is some importance in some of the other business we are facing, but there is also a lot of vital importance in terms of Goodyear and the plant shutdowns. They did not choose that, and that is why this motion was made as strong as it was. If they did not accept the setting up of a plant shutdown committee, then we would set aside everything else.

It seems to me, and I would insist, that if we are going to say, "That motion we passed two weeks ago did not mean anything and we will go on with our own course of action," another report is needed in the House. We had sure as hell better file a report of this committee saying: "We take back what we said two weeks ago. We will now deal with our original mandate, whatever that was." I think that has to be the case, and we would make that argument, even in the House if we have to.

I believe there is a better answer than Mr. Ferraro's, which I think makes us look silly and certainly negates this motion. I will not support it without having the issue raised again and another report in the House.

One of the things I found out in talking to our own House leader is that there was more than a little confusion. There should not have been, possibly, but there was in terms of what the problem was within the committee and what we are supposed to do. I thought this resolution would have cleared it, but it obviously did not. I know the confusion extended beyond our House leader.

Before we have a motion such as Mr. Ferraro has moved, if they would consider it, it would be worth having the chairman of this committee get together with the House leaders. It would behoove all of us to talk to our House leaders in advance about exactly the situation we are in and have a bit of discussion about what this implies.

We say here that if you want us to be a plant shutdown committee, that is what we will do. That means the budgetary review, the corporate concentration and all the other stuff will have to be reassigned immediately to somebody else. You had better clearly understand what the motion we passed and the House accepted says. If you want to give us some other direction than that, you should tell us, and then we had better have another discussion in this committee.

That kind of clarification discussion is necessary very soon. Otherwise, we are just playing games here.

Mr. Chairman: I do not think that, technically, the House accepted the motion.

Mr. Ferraro: They accept every damned motion we present to them. That is the way it works.

10:10

Mr. Taylor: Following Mr. Mackenzie's reasoning, I wonder whether Mr. Ferraro will withdraw the motion.

Mr. Ferraro: I will withdraw it. Sure, that is fine. Either one or the other.

Mr. Taylor: I find we are in a position where we will be attacking the integrity and credibility of this committee if we do not follow through with the other resolution, if we try to reverse ourselves. I frankly cannot support such a position. I would rather see a solution sought before we approach such a motion.

Mr. Ferraro: That is fine.

Mr. Mackenzie: The member for Lakeshore (Mrs. Grier), whose riding the deal is in, has just left. She asked what we were discussing. I said, "Perhaps we are going to dump the discussion of the plant shutdowns committee." Her immediate reaction, a legitimate one, was: "Goodyear? Surely to God you are not doing that. You would have an uproar if that motion were put in the House."

Mr. McFadden: Can I raise one thing? I do not know how many of you

have recently read our orders of reference. They read as follows: "...The standing committee on finance and economic affairs which is empowered to consider and report to the House its observations, opinions and recommendations on the fiscal and economic policies of the province and to which all related documents shall be deemed to have been referred immediately when such documents are tabled."

That mandate is so broad it can take in plant closures, the price of shoelaces--it can take in any topic you choose to put. Rick's motion effectively was that if we referred back to our original mandate, our original mandate would encompass anything depending on what was going on.

Mr. Mackenzie: I think we need a discussion with the House leaders.

Mr. McFadden: I think we have to. It is unfortunate that we have lost another day hassling about this. I do not know how many times we have talked as a group about our scheduling problems. Just as we start to make some movement in that direction, we get off the rails again. I concur with what Bob and Jim have been saying. In the next week, we have to get some agreement among all the parties, House leaders, whips and all these other people who want to meddle on how we will do it, bearing in mind that we have a resolution that was passed. We have to try to deal with it. We have to see whether, for example, that resolution is compatible with the overall budget review. It is possible.

I just throw this out. I am not trying to say, "Let us tackle everything at once," but it is possible that we can tie in the whole area of plant closures with an assessment of the economic situation of the province and with recommendations, or a report, on the next budget. It need not necessarily be totally divorced from the other things we are doing.

I raise that as perhaps a way to keep this going so that this report on plant closures, or whatever, is going to come here. How we are going to approach it can be a subsection of the overall budget report or economic report we intend to pass on to the government. I point out, as the members will recall, that a number of months back we were going to look at single-industry towns. That was one of the ideas we had as part of the overall budget review anyway. I am not so certain all this is totally incompatible. I think we have to be innovative in how we approach this.

I want to raise one matter regarding estimates before we go any further. We are not necessarily in agreement with estimates of one and a half hours per ministry; I can tell you that now. Let us not work on the assumption that we are going to run through two full ministry estimates in one morning. It would be a disservice to those ministries. When I look at the amount of money spent by those ministries, I do not think that is something we should contemplate. I think the estimates process is important around this House, while some people do not. I do not believe we should dump accountability of government departments under the rug or try to deal with it in an hour. If there is absolutely nothing to say about those ministries, that is fine, but I cannot commit us to an hour and a half for each ministry.

Clerk of the Committee: That was only my suggestion.

Mr. McFadden: I am just telling you that I cannot commit--

Mr. Chairman: I think there is an understanding that any tentative commitments that occur with regard to that can change. Mr. McFadden, the chair is in sympathy with what you are saying. I wonder whether the committee could look at a plan similar to the one the clerk has set out, bearing in mind that this committee does not cease to function when it finishes its budgetary matters. In any event, we are not going to solve all the plant shutdown problems in a short time. It could be an ongoing project that would get started this month, continue through January and further continue when we pass on our recommendations to the Treasurer with regard to the budget.

I see Mr. Ferraro's hand. Can you commence by clarifying where we stand on your motion? I would like the debate to end shortly.

Mr. Ferraro: If we can clarify where the hell this committee is, I can probably clarify my motion. Let me say this in conclusion: I share some frustration as a member of this committee--maybe I should not say it because I am the vice-chairman--because we are going in nine directions at once. I want to lodge my apprehension and concern about trying to be all things to all individuals. One of the reasons I brought forward the motion I did, aside from what we have right now, is that it sets a direction, albeit muddled. If we were to become a plant closures committee, we would know what the hell we were going to be doing with it. If we go back to the original mandate or what we thought was the original mandate, we could at least deal with that.

When I hear the dissertations of some members--I was so brief the first time, and it almost precludes ever trying to be brief again. If somebody is going to stand up in the House and say, "Rick Ferraro is against the idea of plant closures and does not think the layoffs at Kimberly-Clark or Goodyear are important," that is not what Rick Ferraro said.

The reason for the motion was essentially to bring some direction. Politics being politics, in saying, "He is against that or he is in favour of the idea of corporate concentration," which has tremendous effect on jobs and unemployment or the estimates or on this bill, you are going to get somebody saying something about somebody. What I am getting concerned about is the constant confusion of this committee about where the hell we are going to go; maybe I should speak for myself.

I will happily withdraw my motion, but let me say this in caution. If I understand Mr. Mackenzie correctly, we are talking about going to the House leaders and saying: "You guys realize how serious we were on this. In effect, what we are going to become, notwithstanding any further action from the committee, is a plant closures committee. End of discussion." Is that what I am hearing, or are we saying to the House leaders, "You guys decide what the hell we are supposed to be doing on this committee"?

Mr. Chairman: If you are withdrawing that and if the directions to the committee in planning future business are to assume the responsibilities on plant closures and suspend all planned activities, then we are a plant closures committee, and I am not sure the House leaders are going to concern themselves a lot about it.

Mr. Ferraro: I agree. I think they are going to say, "No, you are not." I stand to be corrected on that. If we are the plant closures committee, let us get on with it because it is important work. If we are not, then let us get on with the other stuff.

Mr. Mackenzie: That is what I am saying. With this resolution, we

have said very clearly that is what we are. It was presented to the House, however you want to go by the legalities of that. Serious discussion is needed almost immediately between the House leaders and the chairman of the committee. All of us have a responsibility to sit down for a few minutes over the next 24 hours with our House leaders to make clear what the discussion has been in this committee, the kind of load we have been given and why this kind of decision has been made. Then we will probably get some direction from them, and that is important.

Mr. Chairman: All right. You have withdrawn your motion. The motion from last week stands as our direction.

Mr. Ferraro: If the decision is that we become the plant shutdowns committee, then that is fine, although I have strong reservations that we become the plant shutdowns committee.

10:20

I think the encouragement should be on the House leaders to set up another committee. Mr. Mackenzie indicated there might be something--

Mr. Mackenzie: They might influence it the second time around.

Mr. Ferraro: I personally think the other work is every bit as important, and to some degree more so, and I say that with great respect for the crisis at Goodyear and so forth.

Mr. Chairman: That leads me to the subject matter that perhaps we can still get into today if the committee is consenting to it, even though it does not necessarily involve suspending all our activities. That is the follow-up on last week's economic and fiscal review by the Treasurer. Is that acceptable to the committee as an agenda for today?

Mr. Mackenzie: If I accept your argument that we have until December 15, I guess it is, but it is a moot point.

Mr. Chairman: All right.

Mr. Mackenzie: In closing, I do not disagree either with all of the points Mr. McFadden makes, but I also remind you that early on in the corporate concentration section, we had the first serious discussions, such as we have had again here today, saying, "There is no way we can handle something as comprehensive as corporate concentration and take anything else on." That was before we got into budgetary review, though we knew it was coming, and we had not had any of the other things dumped on us.

We have a very broad mandate, and I will agree, there has also been serious discussion in this committee before about how broad we can be. All of them interconnect. That is one argument. Whether or not that gives us the right to back ourselves into that kind of a bind again, which is what I am afraid Mr. McFadden's argument implies, I do not know.

Mr. G. I. Miller: Mr. Chairman, are you not on the steering committee that directs this committee? Will it sit down with the House leaders to decide our direction?

Mr. Chairman: Yes, we do.

Mr. G. I. Miller: Why do you not go that route?

Mr. Mackenzie: Probably it would be effective for the steering committee, rather than only the chairman--

Mr. G. I. Miller: Pardon me?

Mr. MacKenzie: I am sorry, I did not mean to interrupt.

Mr. Chairman: You are asking why the steering committee did not look after these matters.

Mr. G. I. Miller: That is correct.

Mr. Chairman: The problem briefly is that the whole committee moved last week to reassign our own directions very much unless the House set up a plant shutdown committee. The House apparently does not intend to do that; so it seemed the view of some members of the committee, and particularly Mr. Cordiano had asked me, to have it raised before the whole committee this morning to see what direction this resolution is going. That was why it was done.

At one stage, I had hoped to have a subcommittee meeting this afternoon. I am not sure that is necessary or feasible, because we have discussed this pretty thoroughly.

Mr. Haggerty: To go back to this resolution, to try to accommodate it, I think they are going to have to go back to a committee of perhaps three members. Some members may argue that it cannot be done. Often, the government has appointed a royal commission of one individual and he or she seemed to come back with a report to resolve an outstanding issue.

I think the importance is there, and I would not want to draw the line and say we are going to look only at Goodyear. I am looking to northern Ontario, where there are problems of unemployment. The ministry says the committee should be singling out Goodyear. I think of those people at Falconbridge and in other areas up there that should be heard too.

If you want to carry out the mandate of this resolution, the mandate set down by the Treasurer, you are going to have to go this route. It is a compromise, but you are going to get the results the committee wants.

Mr. Chairman: I think we have debated that pretty thoroughly, and if there had been a motion, it would have been passed in this committee. The fact is that one party is saying it will not agree. As I understand the rules, we do not have permission to set up a panel unless it comes from the Legislature, and it is going to have to go through the House leaders.

Mr. Haggerty: If you go through the House leaders, you should have some alternative there to say, "Maybe this is the way we can resolve it, regardless of the third party, the official opposition or the government party." If you want to get to the resolution before us, you are probably going to have to take that route.

Mr. Chairman: I am prepared to sit down with the House leaders this week, as Mr. Mackenzie has suggested. Perhaps a member from each party can come with me and sit down with all three House leaders, if we can arrange a

meeting, and discuss our problem more thoroughly. I agree the problem has been that they meet at the same time we do and something gets lost in the translation from time to time.

Mr. Mackenzie: I think it is important.

Mr. Haggerty: It is difficult right now. I have sat on committees here and sometimes, though not in this committee, we do not we do not really get on to the business until nearly 11 o'clock. It was 20 minutes today before we had a quorum.

Mr. Mackenzie: That is nothing new.

Mr. Haggerty: But you have another member over there.

Mr. Chairman: I think we have had enough. I do not think we are going anywhere at the moment in this debate. The clerk has asked me for some direction as to next week. He has suggested that we try to work in the estimates. I wonder if the committee is not suggesting that we get started next week on plant shutdowns.

Mr. Ferraro: It all depends on when we meet with the House leaders.

Mr. Chairman: Does that mean we come back here next week at nine o'clock and start discussing this again?

Mr. Ferraro: No. Quite frankly, another discussion in this regard would be a waste of time until we get something specific out of the House leaders.

Mr. Chairman: Am I hearing the chair can set the agenda depending on that meeting? Is that acceptable?

Mr. McFadden: I do not see the merit in meeting again next week on plant shutdowns to sit here and chat among ourselves once more. Somebody would have to come here properly prepared. Various people might show up, but I am saying there would be no problem meeting with people from Goodyear, if that is the first group we are going to be meeting with, as I understand what has been discussed. If they are coming, let us make sure it is a useful meeting.

As well, I wonder whether we could seek to sit Thursday afternoons if we had to that day, perhaps just to get on with it and make some progress.

The other thing is, what are we planning with the estimates?

Mr. Ferraro: If we have plant shutdowns we are not planning anything with the estimates.

Mr. McFadden: But we could still go ahead with estimates next week at least and get on with it. I do not know if anything is planned.

Mr. Chairman: We already have a resolution, which was passed earlier, asking if we could sit on Thursday afternoons. I take it that could simply be reraised at the meeting I have with the House leaders, and I will do that. I am not hearing any opposition to sitting Thursday afternoon.

Mr. G. I. Miller: We were supposed to be dealing with estimates this morning? Can that be clarified before next week and then we can deal with it next week? Is that another possibility?

Mr. Chairman: At one stage, we gave both ministries a chance. I think the consensus of the committee is that we would like to get on with other things now. We did have some estimates planned for this morning. I also understand that is being left in the hands of the chairman. We will leave all options open. It is to be left in the hands of the chairman depending on my meeting with the House leaders. You may end up with estimates next week.

Mr. McFadden: When are we going to hear about that? The critics have to know more than a day in advance, as do the ministry people. What are we going to do about that?

Mr. Chairman: I will try to get a message about the results to all members as soon as the meeting occurs with the House leaders.

I am going to ask Mr. Bond to speak to the plant closures matter, because he has done a little research on that. That may enlighten us a little more as to where we should be starting. After some discussion on that, I will ask him to speak to the fiscal matter.

Mr. Bond: Before calling Goodyear before the committee, we should perhaps do a little bit of preparatory work.

The select committee on plant shutdowns and employee adjustments could be our model as to how we approach the whole question of plant shutdowns. It was created at the end of the last minority government. The chairman was Bruce McCaffrey and the vice-chairman was Hugh O'Neil. I believe the late James Renwick was a very active member on the committee for the New Democratic Party.

The committee began the first phase of its study by setting up meetings with the ministries concerned: the ministries of Labour and Industry, Trade and Technology. They brought in the key people, the people whose field it was to look at plant shutdowns and employee adjustments, i.e. employee pensions, the stripping of pensions and severance pay.

10:30

It might be a good idea, before we talk to Goodyear, to bring in the respective ministry people and get some background from them first. Then, with that knowledge, we can begin calling in the various companies.

The select committee approached its study of plant shutdowns on a case study basis. I know in their interim report they looked at companies such as Armstrong Cork Industries, SKF Canada Ltd., Heintzman Ltd., Steep Rock Iron Mines Ltd., Bendix Automotive and Essex International of Canada. They did it on a case study approach and they found it to be most beneficial and the easiest way of tackling the whole issue.

Mr. Mackenzie: On that point, I might point out Mr. Renwick moved, and it was supported by all the members of the committee at the time, that wordy motion--I do not know what the technical term is--where the committee has the authority to ask for and, if necessary, subpoena, papers, documents, things and people, or what have you. It proved very necessary for that committee because we had a number of international companies with branch plants that refused initially to appear before the committee. In a couple of cases we did have to subpoena.

Some valuable information came from that and because of the little hassle we had on a previous committee here I would want to make sure we had that authority as a committee. Otherwise it makes it very difficult in some of these plant closure situations. There is a wording for the motion. I forgot the wording of it. I always found it a bit strange, but I gather it is standard wording for a motion where a committee has the authority to ask for and receive any necessary people or witnesses before the committee.

Mr. Haggerty: Let us cross that bridge when we get there.

Mr. Mackenzie: I raise it simply because it is absolutely vital. Essex, the plant in Dunville, for example, refused to come before us. It was a large, American international conglomerate. We had to issue subpoenas and they sent up from the US some of their key management personnel as a result.

Mr. Bond: I believe, in two instances, Speaker's warrants were issued.

Mr. Mackenzie: The point I am making is that without this authority, we find we are in the middle of a serious investigation and we cannot get the key witnesses before us.

Mr. Bond: That is all I had to say on plant shutdowns. I wanted to give members a little background.

Mr. Chairman: Is there any direction the committee wants to give us with regard to starting?

Mr. Haggerty: I suggest that the chairman contact the House leaders immediately, if not sooner.

Mr. Chairman: You are overhearing Mr. Carrozza's conversation with me. He has suggested to me that I go immediately to meet with the House leaders at this moment. I indicated that might be disrupting the meeting because I had indicated that I wanted to take a member of each party with me.

Mr. Mackenzie: It would give us a chance to talk to our House leader and I think it would make sense for others to do it at that meeting.

Mr. Chairman: All right.

Clerk of the Committee: I spoke to Mr. Nixon and he suggested that the other two House leaders are going to be present in a few minutes in his office. He suggested that the members do go there and speak to him.

Mr. Haggerty: There, you see; sooner than you thought.

Mr. Chairman: Mr. Mackenzie, what is your reaction to that?

Mr. Mackenzie: I have no objections to that. I do not have a particular desire, or see a need, to have a private meeting first. I am just going to be expressing the views of the committee.

Mr. Chairman: Does the committee wish to adjourn or did you want to carry on? Mr. Haggerty, could you be chairman?

Mr. Bond: I do not think there would be a quorum.

Mr. Chairman: There will not be a quorum.

Mr. Mackenzie: If you are to have a meeting, you had better adjourn this meeting and call it back next week.

Mr. McFadden: Before we end today, let us stop a minute here. I do not agree to adjourning today in confusion, not knowing what we will be doing next week. If we are coming here to meet with ministry officials and David and to talk about all the legislation and the background on what is happening, that is fine. We will know what we are doing. If we can do that in the morning and perhaps go on to estimates in the afternoon, if we are going to deal with estimates, I am agreeable. I do not want to leave here in confusion and then come back next week and have us sitting here arguing more and more about scheduling and what we are going to do next.

Mr. Chairman: I hope we would resume our sessions this morning and we would not be meeting that long. Ms. Hart, is that what you were saying?

Ms. Hart: If there is time.

Mr. Chairman: It is only 10:35 a.m.

Mr. McFadden: Are we going to meet for another hour this morning? I am sorry. Someone said we would meet again next week.

Mr. Chairman: No.

Mr. McFadden: That is what I heard.

Mr. Chairman: Is that understood? We will meet in half an hour, at 11:05.

Mr. McFadden: Let us do that then. I would like to sort it out a bit.

The committee recessed at 10:37 a.m.

11:06

Mr. Chairman: For the record, Mr. McFadden, Mr. Mackenzie and I met with the House leaders. We reviewed with them briefly our concerns about a panel being set up to deal with plant shutdowns, sitting times and the possibility of sitting Thursday afternoon. We also discussed the possibility of sitting evenings. It is fair to say nothing was resolved. It is back in the hands of our committee to resolve the conundrum of dealing with both plant shutdowns and budgetary review.

Mr. Ashe: Why do we not refer back to the Legislature everything else we have on our plate? That, at least, is a step in the right direction.

Mr. Chairman: Mr. Ashe has suggested that we refer everything back.

Mr. Ashe: Everything else.

Mr. Chairman: That was suggested as a possible solution by some of the House leaders. The chair suggests there is no necessity to do that right away but I am in the hands of the committee. We can always live in the optimal expectation that some day we are going to reach some of these things. We are not being asked to move quickly on anything.

Mr. Mackenzie: I think we are. There was a suggestion that perhaps this report should come back to the House to clarify. I do not have all of the wording yet, but I would like to move that the standing committee on finance and economic affairs refer back to the House the matter of closure of Goodyear Tire and Rubber Co. and list the names of the other firms that were in the original motion, which the Premier (Mr. Peterson) suggested could be dealt with in this committee and which was accepted by unanimous vote of the committee on a motion by Mr. Cordiano, amended by Dr. Stephenson and Mr. Foulds.

Further, that we also refer back to the House the matter of Treasury bills, estimates and the issue of corporate concentration and that the committee deal with the review of the budgetary items.

Mr. Chairman: I am not sure--

Mr. Ashe: We are sending everything back except the economic and budgetary process. That is the sum and substance of it.

Mr. Chairman: Mr. Mackenzie, I am not delighted with the idea of dealing with a procedural motion at this stage because we have spent some time on it, but I am in the hands of the committee. I remind the committee that Mr. Bond is prepared to discuss in some detail the fiscal paper and what we should be doing with it next.

Mr. Mackenzie: I am open to arguments on it. At some stage here, I will move that motion. It is important that we narrow it down. I think the budgetary review is the key thing. Whether we want to hang on to some of the corporate concentration is something I am open to, but that means we do some scheduling. We have to refer back because we cannot just ignore something as important as the directive we took ourselves and presented to the House in terms of plant closures. I think we have to make it clear in the same motion that we are getting rid of estimates and Treasury bills.

11:10

Mr. Ashe: It is more of a question. Has it come up at all, either this morning in your meeting with the House leaders or in any other discussions, as to what kind of a possible time allocation we have and is it going to be generous for the in-between session for whenever that may occur?

As you know, in most cases when the times are being allocated for committee use between sessions, some committees are given a substantial block of time and others are given a very limited block of time. We have to know that to know the answer to some of these questions because it does not matter where we go; we are not going to finish it in the next two weeks. Whether we are coming back on January 12 is still a question mark. I accept that. Somewhere along the line we have to know whether this is going to be one of the major committees with respect to allocation of in-between-session times.

Mr. Chairman: With the caveat that we are not getting any time between December 18 and January 12.

Mr. Ashe: Yes, I accept that. Sure.

Mr. Chairman: I understand it has been made very clear by our whip to me. Thereafter, I am not hearing any objections, and that is including the

discussions we have had with House leaders, to the presumption that we are going to get a lot more time. That was raised just now by Mr. Nixon, was it not?

Mr. Mackenzie: The Treasurer made the comment that we may have to upgrade this committee to one of the senior committees in terms of the time and jobs, but that is an observation.

Mr. Chairman: It was Mr. Nixon who said that.

Mr. Mackenzie: I do not know what it means in practical terms.

Mr. Chairman: That is a subsequent session. That is the ongoing time allocation.

Mr. Mackenzie: My point even with that is there are two very important items that were originally our mandate: budgetary process review and corporate concentration, which tie in to some extent. I would like to zero it down to one, but I would be perfectly willing to listen to somebody make a suggestion otherwise. My motion would be that we have to refer back to plant shutdowns because it cannot be ignored and the revenue bills and the estimates to the House and let them make any further direction. That can then be debated if they decide they want to debate the report when the chairman presents it to the House.

Mr. Chairman: We do not have any revenue bills at the moment. We have dealt with the one revenue bill we have. We have Bill 116. I know some urgency has been expressed, particularly by Mr. McFadden, in the industry, but it was agreed at a subcommittee meeting that would be a low priority compared to some of the other matters. If we refer it back to the House, it is going to be sent on to another committee. It is going to have to start from scratch. I am not sure that is what everybody wants.

Mr. Mackenzie: We cannot dilute what we are saying here. Personally, I think the plant shutdowns is the most important of all. That is why it clearly has to be referred back to the House, so they do or do not deal with it.

Mr. Chairman: All right. We can send that back. I would question sending back corporate concentration when we have spent several weeks on it. We have yet to come up with any recommendations. That would suggest we have wasted a great deal of time on that.

Mr. McFadden: I would prefer corporation concentration to stay out as well. Essentially, all of the material, the witnesses we have had and everything would be useless if we were to move all that out of our committee. My suggestion would be--

Mr. Mackenzie: I will change my motion to say that we will deal with the budget review and corporate concentration and schedule ourselves accordingly.

Mr. Chairman: That is a motion on the floor that we deal with--

Mr. Mackenzie: I have not spelled out all the words, but it has to be clearly stating that we are turning back--

Mr. Ashe: If I can clarify, Mr. Chairman, Bob, do you include in that Bill 116?

Mr. Mackenzie: I personally would.

Mr. Ashe: In my view, it sure ties in with the corporate concentration in the sense we have looked at it to date, which is in the financial sector. When we were talking about financial institutions and corporate concentration, we heard a lot of the same input that people would be coming and talking about in Bill 116. It is all in the same bailiwick, albeit it is a bill and it is separate.

Mr. Chairman: Before we go any further, Mr. Carrozza is having some problems with the motion. Perhaps he could get it clarified.

Mr. Mackenzie: I need time to write it out.

Clerk of the Committee: If I may, Mr. Mackenzie, your motion states that you wish to send back everything. I must point out that under the present rules, when some matter is sent to the committee, the committee has very few options. One of the options about the estimates is that when we report them back, either it is with or without amendment. Those are the only choices we have. Similarly with the bill, we can only report it with or without amendments. The other ones are also similar. Your motion, sir, does not somehow mesh with what you wish to do.

Mr. Mackenzie: It is exactly one of the things we were told in the meetings with the House leaders today that we could do. We could refer back these items.

Mr. Chairman: We can refer back with estimates.

Clerk of the Committee: Within two minutes, if you just look at it and say that your motion goes back, that it is reported, you can do that, no problem.

Mr. Mackenzie: That can be reported back in a report of the committee chairman, just as we reported this to the House. Then they can accept it, or somebody can ask for a debate on the damn thing.

Mr. Ashe: It is 11:15, folks.

Clerk of the Committee: A new quorum then.

Mr. Chairman: I am not understanding.

Clerk of the Committee: I am sorry.

Mr. Chairman: If we referred back estimates, then are they not referred to another committee to deal with?

Mr. Mackenzie: They will have to make the decision, and that is one of the things that is not clear.

Mr. Chairman: It is not fair, of course, to those ministries and their critics simply to pretend we are looking at them right now, if that is what you are saying.

Clerk of the Committee: I am sorry, Mr. MacKenzie, I did not understand you. Do you mean report them back as carried or just report them back?

Mr. Mackenzie: Not as carried; we have carried none of it. Report it back to the House. I think there has to be a sentence in the motion that we find the work load prevents us from handling them. How we do that is another matter. The House is then going to have to make a decision on these other items.

Clerk of the Committee: So what you are actually saying is that with a preamble saying that because we do not have time, we therefore are sending A, B, C, and D back for relocation to the Legislature. That is exactly what you are saying. Do I understand you correctly?

Mr. Mackenzie: Yes.

Mr. Chairman: All right. What do you want in that? The two sets of estimates?

Mr. Mackenzie: I want the Treasury bills, estimates and certainly plant shutdowns. That has got to be the highlight, because it has got to be given some importance.

Mr. Chairman: And not Bill 116 or Bill 116? Let us get the motion cleared.

Mr. Ashe: We do not have any other bills right at this time, do we?

Clerk of the Committee: Bill 116 is the only one.

Mr. Ashe: That is not a Treasury bill, is it?

Clerk of the Committee: No.

Mr. Chairman: But you want the motion to read, "any Treasury bill that..."? Do you want that in the motion?

Mr. Mackenzie: There are only certain things that have been referred to us. That is all we can refer back at the moment. The intent has to be clear that we deal with the two items that we want to deal with, the budgetary review and corporate concentration.

Mr. Chairman: Let us, you and Mr. Carrozza work this now. The motion is to refer back to the House, because we do not have time to deal with these matters in view of the constraints on our time, the Revenue estimates--

Clerk of the Committee: Given the time constraint, the committee proposes--

Mr. Bond: The House has not allocated this committee enough time to deal with the--

Mr. McFadden: May I make one point? With regard to Bill 116, my feeling is that, once we have finished our work on the corporate concentration, we will know infinitely more than anybody else in this Legislature about loan and trust legislation and financial institutions. "Infinitely more" does not mean that we are experts, and we probably do not

know that much about it, but I suggest that most members of the Legislature know nothing about it.

I know there was a tremendous learning curve for the committee as we were going through those five weeks of hearings. It would make sense then to leave that with this committee. When we are finished with the work as set out, budget and corporate concentration, we could then turn to legislation. It makes sense for this committee to deal with that one piece of legislation. If it should happen that the government or the House leaders believe that particular piece of legislation deserves some priority and should be dealt with in the next month or two, then we will have to cross that bridge when we come to it.

We will assume, since it does tie in with the study we are now doing, that it remains with us to be dealt with in due course, once we have finished our report, certainly on corporate concentration among financial institutions.

Mr. Chairman: All right. I think Mr. MacKenzie is not including either corporate concentration or Bill 116 in his motion. We will have the exact wording in the motion in a minute. as I understand it, it is going to suggest that we report back to the House that because of the time constraints given to us, we do not have time to deal with--and the problems were outlined in the motion we passed last week--the two sets of estimates we have been given. We are simply reporting those back to the House. The House can deal with it as it wishes. Is there any discussion on that?

11:20

Mr. G. I. Miller: In line with what we talked about earlier, as David mentioned as well, certainly during our budget discussions, regardless of what the House may choose to do, we could obviously deal with the area of plant shutdowns in single-industry communities and those other things that have been discussed. It is not that we are disregarding those issues.

Mr. Chairman: No.

Mr. G. I. Miller: It is just that we cannot deal with it to the exclusion of all of the other economic problems and opportunities facing the province.

Mr. Chairman: Should that fact be included in the resolutions in view of the argument that was made earlier this morning that we might, as a committee, be subjected to some ridicule in that we are seemingly reversing ourselves, although I am sure that is not the intent of Mr. Mackenzie at all.

Mr. G. I. Miller: Has the steering committee agreed on the direction that we should go? Is there unanimous consent?

Mr. Chairman: I do not know whether we are unanimous or not but we have been debating this motion. As I understand it, the result of this motion is we are telling the Legislature they should deal with that particular problem. We are going to deal with it to the extent we can in our budgetary matters and we are going to get on dealing with the budgetary matters.

If there is no further debate on the general principle of it, we will adjourn for a few minutes, unless you are ready?

Mr. Mackenzie: I need another minute or two.

Mr. Chairman: Why do we not adjourn for a few minutes? We will come back on Hansard when Mr. Mackenzie has the motion ready.

The committee recessed at 11:22 a.m.

11:25

Mr. Mackenzie: I would like to go through this with you slowly, because I am not the academic shthead in our caucus.

Mr. Ashe: I beg your pardon. Leave out the word "academic."

Mr. Mackenzie: "I move that the standing committee on finance and economic affairs refer back to the House the matter of plant closures and layoffs as highlighted by"--and then repeat the sentence we have here--"Kimberly-Clark at Terrace Bay; E. B. Eddy, Nairn Centre; Goodyear Tire and Rubber, Etobicoke; waferboard plant, Great Lakes Forest Products, Thunder Bay; Falconbridge, Sudbury, etc., as originally suggested to the committee by the Premier and accepted unanimously by the committee on a motion on November..."

We can say by whom it was moved and amended or just "on a motion accepted unanimously by the committee; and that the committee further refer back to the House any estimates and Treasury bills referred to the committee. The committee finds the importance of the matters referred to the committee in its original mandate, namely, budgetary review and corporate concentration, with which it has begun to deal, make it impossible to accept additional matters as important as plant shutdowns."

Mr. Chairman: Any discussion?

Mr. Ashe: I have no problem with the intent, other than in one areas. I think you can delete "Treasury bills," because we do not have any. That is going to lead to confusion regarding Bill 116, which we either have to identify in the motion as being included to send back, in which event I will vote against it, or specifically identify it as something we will retain in the context of corporate concentration in the financial area that ties right in.

As it is at the moment, it would end up being somewhat confused, if "Treasury bills" were to include Bill 116. I know it is not a Treasury bill; it is a Financial Institutions bill.

Mr. Mackenzie: Why do we not say "and that the committee further refer back to the House estimates and any--" I want to leave the clear impression that we are not going to have additional matters referred to us. I think it is important. You can leave out Bill 116 and include it in the budgetary review. I have no difficulty with it, if that is what you decide to do.

Mr. Chairman: You are speaking about future bills.

Mr. Mackenzie: "Estimates and any new bills," something to clarify that we are not--

Mr. Ashe: That is fine. We have none to send back at the moment, so I agree with you. I suggest "no further legislation should be referred to this committee until it finishes the task as identified," something along those lines.

Mr. Mackenzie: That kind of comment could be made quite easily, and I would have no objection.

Mr. Ashe: I have no problem with your intent.

Mr. Chairman: Does that make sense? Any other discussion? Can you read it one more time?

Mr. Mackenzie: Yes. I have not put in that one word in the paragraph.

"I move that the standing committee on finance and economic affairs refer back to the House the matter of plant closures and layoffs as highlighted by Kimberly-Clark at Terrace Bay; E. B. Eddy, Nairn Centre; Goodyear Tire and Rubber Co., Etobicoke; waferboard plant; Great Lakes Forest Products, Thunder Bay; Falconbridge, Sudbury, etc., as suggested by the Premier and accepted unanimously by the committee on"--and give the date--"and that the committee further refer back to the House any estimates...." This is where I have not made the change we need that we were just discussing.

Mr. Ashe: "Estimates now before the committee."

Mr. Mackenzie: "Or any further bills."

Mr. Ashe: We do not have any.

Mr. Mackenzie: "Estimates now before the committee." We may need a new sentence.

Mr. Ashe: "Now before the committee," and that is all.

Mr. Mackenzie: That may state the case without adding anything to it: "estimates now before the committee. The committee finds the importance of the matters referred to the committee in its original mandate, namely, budgetary review and corporate concentration, with which it has begun to deal, make it impossible to accept additional matters as important as plant shutdowns."

Mr. Ashe: For further clarification then, "corporate concentration, including the relevant consideration of Bill 116," and so on. Do you wish to include that in your motion?

Mr. Mackenzie: If it will gain acceptance, I will include it.

Mr. Chairman: Anything further?

Mr. Ashe: It ties right in, because we have been looking at financial institution corporate concentration.

11:30

Mr. Chairman: Does everyone understand the motion? No further discussion? Are you ready for a vote?

All those in favour? Opposed?

Motion agreed to.

Mr. Chairman: We have carried it unanimously.

The question I am being asked is what you want us to do with it. I presume I would report it back to the House at the earliest convenient time.

Mr. Mackenzie: Report it back to the House.

Clerk of the Committee: As a report.

Mr. Mackenzie: As a report.

Clerk of the Committee: We need a motion that this is a report of the committee and that the chairman should present it.

Mr. Chairman: We are asking for a motion that this be made a report of the committee to the House. Mr. Mackenzie so moves. All those in favour?

Motion agreed to.

Mr. Chairman: It carries unanimously.

Mr. McFadden: In view of what we have done, what are we going to do next week? I hate to belabour this.

Mr. Chairman: I suggest that we now take half an hour and listen to our learned friends to my left. It may well be that at the conclusion of that time we will have some sense of what we want to do next week and thereafter. Mr. Bond, we have cleared the way to deal with budgetary matters.

Mr. G. I. Miller: When the steering committee met with the House leaders, did it not come up with any recommendations?

Mr. Chairman: We are talking about the steering committee of this committee.

Mr. G. I. Miller: That is right.

Mr. Chairman: It met before last Thursday; it did not meet in the intervening week.

Mr. G. I. Miller: Did you not meet with the House leaders just now?

Mr. Chairman: We did.

Mr. G. I. Miller: Did you not discuss what you might deal with?

Interjection.

Mr. Chairman: This will resolve a lot of things.

Mr. G. I. Miller: I know that, but I thought the direction was to go out and get some direction on where we will go.

Mr. Chairman: They would not give us any direction. I think that is a fair comment, and all parties are present.

Mr. G. I. Miller: I thought we sent you fellows to resolve the problem.

Mr. Chairman: You would think it was the committee versus the House leaders.

Mr. G. I. Miller: You resolved only one day. You should have resolved the whole thing when you were there.

Mr. Chairman: I think we resolved a lot with this motion.

Mr. McFadden: Basically, they told us they were sympathetic to the problem we had. They were sympathetic to the issues we had to deal with, but, "Tough." They said: "Fine. Refer back to us what you cannot deal with and get on with your work."

Mr. G. I. Miller: Are you not making it a priority to deal with the estimates that have to be reported back to the House?

Mr. Chairman: You just voted for a motion that says we do not want to deal with these.

Mr. Ashe: It is not a priority in the view of this committee.

Mr. G. I. Miller: Okay. I am a new member. I am filling in for Joe Cordiano, so I am not an expert on it.

Mr. Mackenzie: It is throwing the onus back on the House.

Mr. Chairman: This committee is a little different from a lot of committees in that we are supposed to deal with general problems rather than specific ones, which may be part of our problem.

ECONOMIC AND FISCAL REVIEW

Mr. Bond: Does everyone have a copy of the Economic and Fiscal Review, Province of Ontario? We have some extra copies. Perhaps we could circulate them.

Mr. McFadden: Are those the same reports?

Mr. Bond: Yes.

Mr. Chairman: This is the one the Treasurer (Mr. Nixon) went through with us last week.

Mr. Bond: I thought it would be helpful if we prioritized the issues in the paper, so let us ask some questions. What are the issues? What questions should we ask on these issues? Of whom should we ask them? Who are the witnesses we can get from the relevant ministries or the relevant areas of the economy?

One of the themes of the review seemed to be that it focused on the status quo. For the most part, it focused on those industries that are performing well. It is not a proactive report. It does not look at weaker areas of the economy. It does not deal with the north in any in-depth manner; it just touches on it.

Mr. G. I. Miller: Does it deal with our tobacco industry?

Mr. Bond: It does not mention the tobacco industry.

Mr. Ashe: It is going to burn down that industry.

Mr. G. I. Miller: If you burn that down, you burn the goose that laid the golden egg.

Mr. Bond: It does not address weak areas of the economy, such as forestry, mining, fishing and agriculture.

Mr. G. I. Miller: That is why I do not have to take all those drugs. It is because I smoke and it keeps those bugs under control.

Mr. Bond: I identified a number of issues in the report. One was the impact of imports on the Ontario economy. The paper did not deal with them extensively. They made a few points I thought were somewhat contradictory. About exports, they said: "After being an engine of growth in the early years of the recovery, trade is currently a drag on economic growth." That is on page 18.

Mr. Chairman: Trade is a drag on growth?

Mr. Bond: "...a drag on economic growth."

On page 12, they also make the point that "net exports will be a drag on growth in 1986 as the increase in imports outpaces the gain in exports." That is basically the reason they are giving; imports are now outpacing exports.

They also make the point that in 1987 the trade position is expected to stabilize with net exports making a positive contribution to growth.

Mr. Ashe: Where are you now?

Mr. Bond: At the end of the first paragraph on page 12.

Mr. Chairman: I see what you are saying.

Mr. Bond: Some points of this document seem to be contradictory. It is something we will have to look at. Previously, no one was working in this field in the Ministry of Industry, Trade and Technology. Perhaps they have someone working in this field now. I remember seeing advertisements for the position. We should know more about what effect imports will have on the economy. If it is going to be a negative effect, then it is going to be a major influence on the budget.

Interjections.

Mr. Bond: In this area, we are going to need expert advice from the Ministry of Industry, Trade and Technology.

Mr. Mackenzie: I had my own bill in the House and was not available last week. I apologize for that. Have we been given the reasons or any explanation about the decrease from 4.1 to 3.6 in the growth rates as forecast at the beginning of that paragraph? I have my own views on it.

Mr. Bond: "The Ontario economy is expected to grow in real terms by 4.1 per cent in 1986 and 3.6 per cent in 1987."

Mr. Mackenzie: On what are they basing the downturn of a half per cent? Anything specific?

Mr. Bond: It is based on declining exports.

Mr. Mackenzie: That is what I was wondering about. Is it strictly on declining exports?

Mr. Ashe: They are saying exports are going to grow next year.

Mr. Mackenzie: Hold it. On page 19--

Mr. Ashe: Exports are going to grow and imports are going to lessen. It cannot be that.

11:40

Mr. McFadden: Exports are rising. That is what it says there. It says trade is expected to stabilize with net exports making a small positive contribution to growth. That has to be something.

Mr. Mackenzie: They are saying inventory accumulation is one of the reasons for that.

Mr. Chairman: This scenario is based on a lot of givens, one of which is that US growth will be 2.9 per cent in 1987. It will generally be a very slow growth rate. There are alternative scenarios painted, starting on page 40, which show even worse US growth and then somewhat better US growth. The presumption is that there will be great dependence on what is happening in the US. It will depend, in part, on fiscal decisions made in that country.

Mr. Bond: Yes. The report did seem quite limiting in its scenarios--one slow growth and one fast growth. It seemed to be a bit of an oversimplification. The other area the paper did not really address was the threat of US protectionism.

On page 25 of the document, they made the general statement that somehow US trade protectionism was to be avoided.

Mr. Chairman: By what means?

Mr. McFadden: There is a statement there that sounds--

Mr. Bond: There is an asterisk to a footnote at the bottom.

Mr. McFadden: That is assuming it will be avoided. Then it says, "There will be no agreement reached." That leads me to assume--

Mr. Chairman: I have never seen a free trade agreement with an asterisk.

Mr. Bond: They also make the point that 35 per cent of provincial income is from trade with the US and 90 per cent of Ontario exports go to the US. This is one of the areas of the paper that is going to have to be addressed. Has the Treasury looked at the effect of increasing US protectionism? Has it considered it in the scenario? What would be the impact on the Ontario economy?

From pages 5 to 7, they mention the impact of the US economy, but no mention is made of US protectionism. In the light of recent developments in the US, we now have both houses dominated by the Democrats who are very concerned about trade issues.

Mr. McFadden: In the light of what you are saying, David, and in view of the work that a lot of us here did on the select committee and the work the Legislature has done as a result of that, it makes very good sense to spend a bit of time looking at this again--not to make a multi-month study of it, but to look at it.

Mr. Chairman: Look at what?

Mr. McFadden: This whole issue of trade. There are some odd assumptions in here which leave out some major factors. They are glossing over protectionism, for example.

Mr. Bond: The effects of imports on the economy in general would be a major issue.

Mr. Chairman: I keep coming back to this scenario on page 40 regarding lower US growth. That is not the same as protectionism, although it could be. You are suggesting we take the base material we have and look at what would happen if there were protectionist bills there. You would have to first look at what would happen in the US, do you not, as well as what would happen here.

Mr. Bond: That is an additional factor, US growth.

Mr. Chairman: Can we really come up with anything very pertinent?

Mr. McFadden: I think what David is raising is a good point. There are various points spread throughout talking about the imports and exports, their contribution to economic growth, the percentage of our gross provincial product is tied up with it. We seem to have mixed signals about what is meant here. The query is whether that in itself raises some questions about some of the assumptions made later. That is the only point.

It would seem to me, if you are looking at witnesses, this could include people from the export associations, manufacturers' associations, etc. who would give us input on any assistance they might need in the budget to help them deal with protectionism, or maybe they have no worries.

This is the first I have really thought about this point, but I think David makes some good points of investigation that we could get involved in.

Mr. Bond: Could I ask you to look at page 5?

When this review looks at the major assumption, "US and world economies," first paragraph, last sentence, "The US economy is expected to remain sluggish." Starting with that assumption, a sluggish US economy might very well imply increased protectionism.

Mr. G. I. Miller: I am looking at page 4. Is that one of the areas where manufacturing prices increased almost 20 per cent between 1981 and 1986? However, agriculture and metal prices drifted down. Is that not a key to the economy both here in Canada and in the US, that the agriculture prices are

drifting down? Are they not carrying their fair share of the assimilation of the dollars in both countries? Do you not think this committee should be looking at ways of correcting that? I think it is a very important role and a very important area where this committee could zero in on it. I do not believe that has been happening, as I see any reports coming back.

I leave that for your thoughts.

Mr. McFadden: The fall in metal prices I see as a problem in northern Ontario.

Mr. G. I. Miller: That is right.

Mr. McFadden: I do not know what is included in agriculture prices, but I assume softwood lumber probably might even be included as an agricultural product. I find often you get lost in the categories. The disparities in growth between one area of Ontario and another, and the high unemployment levels in some places and lower levels in others are very much related to the declines in those industries. There are many ways it ties in with our concern about closures and the problems of layoffs in the north.

Mr. G. I. Miller: I want to reiterate with regard to tobacco, which I indicated in the very beginning does play an important role in southwestern Ontario, we should be looking at the effect it is having on the community. Small municipalities have always relied on it. It is just one sector of the agricultural industry, plus the fact that corn, beans and wheat are down to depression prices. Those farmers are trying to compete.

We made an initiative in the north and I do not deny that is very real, but I think we have overlooked the fact that portions of southern Ontario are hurting from the agricultural industry being in a very depressed state. This committee has not zeroed in on that. Nobody has made reference to it. I see reports coming to the Legislature. Nobody has looked at it and I think it is important that this committee make it one of the priorities.

Mr. Bond: To connect the point I was referring to on page 5, that the major assumption is that the US economy is expected to remain sluggish, we then look at page 41. Page 41 deals with the alternative scenario, that is lower US growth.

That is basically the assumption they are under, that the growth in the US will remain sluggish. On page 41 it says: "The US economy would average 2.5 per cent growth during the 1988-1990 period, as opposed to three per cent. Slower growth in the US would...induce slower growth in the Ontario economy over the medium term. Real growth in Ontario would average 2.2 per cent annually between 1988-1990...from the 3.1 per cent in the base case."

They are assuming slower growth in the US economy, which in turn would induce slower growth in the Ontario economy. They seem to be going with the lower US growth scenario. In terms of the north, "The impact of a stagnating US economy," if you look at the top of the page, "would be felt in Ontario's export sectors such as autos, resource-based commodities" etc.

11:50

Mr. McFadden: In your analysis, you feel that the slower US growth scenario is likely the more realistic scenario that we should be addressing ourselves to than the higher US growth scenario.

Mr. Bond: I think the report is a little bit oversimplified. There are a number of contradictions in it. The paper seems to imply, from their assumptions on page 5, that there is going to be a slower or sluggish growth in the US. It seems to be that Treasury is also accepting the lower growth scenario. It is something we are going to have to look at, because it is obviously going to affect the Ontario economy significantly.

Mr. Ashe: As you have already identified in two ways, one, because we are so tied in to the US economy, more so than any other province in Canada, and the second part of that exact same negative impact on Ontario is that as things slow down there, there is more and more pressure on their Congress and so on for more protectionism. That impacts doubly, and I think we have to know how much relevance Treasury has placed on that--I think now after the last elections down there--probability rather than possibility.

Mr. Chairman: I think I am going to have to cut this short because I am expecting in several minutes we are going to hear the bell ringing.

Mr. Bond: These are only the first few issues.

Mr. Chairman: You are just starting to break the ice.

Mr. Bond: Do not think that I am ignoring agriculture; I am not.

Mr. Chairman: I think we are going to want to continue on in dealing with this. But in a new sense, getting back to scheduling, would it be appropriate for the subcommittee to meet this afternoon, perhaps after routine proceedings and reports of committees, to discuss scheduling with a review of what we are going to do in the immediate future, with the presumption perhaps that we will start next week with Mr. Bond continuing his exposé of the deficiencies of what I thought was an excellent report up until this morning? Does that make sense to everyone? Is someone from each party prepared to come to a meeting in Mr. Carrozza's office? Is that all right, Bob?

Mr. Mackenzie: Are you thinking of a long meeting, because I know my schedule is almost full. I can squeeze in 15 or 20 minutes somewhere, but if you are thinking of a long meeting, it would be impossible.

Mr. Chairman: To try to keep it down, we will presume that we will meet for a maximum of 20 minutes.

Ms. Hart: That is what I think of as a long meeting.

Mr. Chairman: Oh boy, you are the new girl.

Incidentally, we have available from the Treasury a three-page document of the participants in the 1985-86 prebudget consultation process, all of whom or almost all of whom, I am sure, will want to have some input into the 1986 budget. We will have to adjust that too. We can perhaps distribute this at our meeting. That will be in room 469 after routine proceedings.

You may hear otherwise as a result of that meeting, but I am presuming at the moment we will continue next week with Mr. Bond's exposé. Do you expect that would take all next week or should we be moving on to something else? You will be at the meeting, you can talk to us then.

Any other business? The meeting is adjourned.

The committee adjourned at 11:51 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

THURSDAY, DECEMBER 11, 1986



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Reycraft, D. R. (Middlesex L) for Mr. Cordiano

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

Cotton, B., Research Officer, Legislative Research Service

McLellan, R., Research Officer, Legislative Research Service

Witness:

From the Ministry of Treasury and Economics:

O'Riordan, B., Special Assistant, Community Liaison

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 11, 1986

The committee met at 9:15 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: Perhaps we can get started. Last week when we adjourned, Mr. Bond was partially into a process of dissecting the economic and fiscal review paper. He has prepared a little bullet-form to indicate some of the points we might be interested in looking at. He is prepared to continue that dissection this morning in so far as the economic review is concerned. In so far as the fiscal review is concerned, it is the opinion of staff there is not really a great deal that can be accomplished in trying to dissect the material that has been given to us by the ministry because it is based upon its own information.

Subject to the position the committee wishes to take, I propose this morning that Mr. Bond continue this review. Treasury officials are monitoring it. They will be prepared to respond to that next week. When we are finished with that this morning perhaps we can set out for ourselves the schedule that we want to take to accomplish the rest of our work in so far as the budget is concerned. A meeting was held yesterday which was an informal meeting, it dealt only with proposals for scheduling. Mr. McFadden and I were present but unfortunately it was not a subcommittee meeting. It was not possible for a member of the New Democratic Party to be present. We can discuss that in fuller detail with members of the committee later this morning.

Mr. Bond, if you are prepared, perhaps you can carry on.

Mr. Mackenzie: Just before you do that, could you explain a little more for my information your comment about the fiscal review?

Mr. Chairman: Perhaps Mr. Bond can do it. I am simply agreeing with him that it would be difficult for research to take issue with the actual figures that have been presented as opposed to finding problems or questions to be asked in so far as the economic review is concerned.

Mr. Mackenzie: Is it simply a question of not being able to verify their figures? Is that what you are telling us?

Mr. Bond: At this point, yes. We can request additional information from Treasury but they are the ones with the experts who prepared that material. It would be rather difficult to get a grasp on those issues. We felt there was enough in the economic performance and prospects section of the paper to get a handle on it. Probably most of the policy recommendations, if we are going to be making any, would be in that area.

Mr. Chairman: When the Treasurer (Mr. Nixon) went through the paper with us, we made some requests as time went on for further information dealing with the fiscal review. I understand that material will be available perhaps as early as Tuesday so that we can have it when Treasury officials are back next week to deal with it.

Mr. Haggerty: As we review the economic outlook for Ontario, are we going to invite any consultants? For example, there are a number of what they call economic specialists in this area. There are different names for them.

09:20

Mr. Chairman: You mean consultants that we would retain?

Mr. Haggerty: No, there are other ones. The bank, for example, will have an economic study done and you will find--

Mr. Bond: We thought in our first round we would invite in groups such as the Economic Council of Canada to give us an overview of their forecasts for the coming years. That would address itself to some of the forecasts in the paper.

Mr. Haggerty: But there are others out there that do some forecasting for governments. Maybe we could get them to come in and see if they can pull anything out of this that may bring to our attention that maybe we are not heading in the right direction. Somebody else may have had an opportunity to review this.

Mr. Bond: Some of the banks give forecasts for the Ontario economy and the national economy as well.

Mr. Haggerty: Are we going to have any of these come in and maybe look at their crystal ball and find out what they are forecasting?

Mr. Chairman: One of the things that we will distribute to you a little later on this morning, when we get into discussing our scheduling, is a list of about four pages long--perhaps you could just show Mr. Haggerty briefly, Mr. Carrozza--of groups, and in some cases single corporations, that made presentations to the Treasurer prior to his first two budgets. There are between 25 and 30 of those that would deem to be relevant for presentations to us before the present budget; that is, ones we should call upon without question.

You see some groups in there, such as the Economic Council of Canada and groups of that nature, that would be making a presentation in a very general way. It was thought that if we can schedule ourselves to be working solidly on this during a midwinter break that might occur starting mid-February, we might hear from such groups as the Economic Council of Canada and other organizations. They might be able to give us an overview which may or may not correspond with what we are hearing from our own government in the once-a-week sessions we will be having in January and February.

Mr. Haggerty: Just in a brief overview of that document, I cannot recall Ontario Hydro being in that group. Should they not appear before this committee to give their overview?

Mr. Chairman: We certainly can call on them.

Mr. Haggerty: They are the ones with one of the biggest expenditures in the province.

Mr. Chairman: They certainly are.

Mr. Haggerty: We should have their forecast, too.

Mr. Chairman: As to what they think they need to--

Mr. Haggerty: That is right. That may be--

Mr. Chairman: That may be one organization we will want to hear from when we get to that time.

Mr. McFadden: Mr. Haggerty seems to be raising scheduling.

Mr. Chairman: I would rather Mr. Bond finish his words before we get on to scheduling.

Mr. Bond: The Economic and Fiscal Review: Province of Ontario can be broken up into two parts. The part we are going to be covering deals with the economic performance and prospects. The other section is the fiscal review. The economic performance and prospects has five sections in it, one dealing with recent performances, the second with assumptions, the third with short- and medium-term outlook, the fourth, a sectoral analysis of the Ontario economy, and the fifth offers a number of different scenarios.

Mr. Chairman: If someone does not have a copy, there are some here.

Mr. Bond: Barbara Cotton, Ray McLellan and I worked up this short sheet, which deals with issues arising with respect to the document prepared by Treasury. Further to our last meeting, we looked at the examination of possible impact of increased United States protectionism as being a very important point. We felt it was worth going over again today.

The reference pages refer to references to US protectionism in the document. One of the first references was on page 25 under the medium-term outlook for 1988-1990, which had to do with forecasts for the Ontario economy beyond 1987. On that page they make the statement, "Significant increases in US protectionism will be avoided." One of the questions we will have to ask Treasury is whether they have addressed the problem of increasing US protectionism and do they really think it can be avoided? It seems to be increasingly important for the steel industry and the pulp and paper industry.

On page 34, they make the assumption that somehow Ontario will be able to avoid protectionism in the softwood lumber area. It would be interesting to know on what basis they make these assumptions. Even in their worst-case scenario, which has to do with lower US growth--that is pages 40 to 41--where the US trade deficit worsens as a result of falling demand for US industrial exports and increased penetration of the US market by imports, they assume the US does not adopt new protectionist measures. That seems to be quite a big assumption on their part.

I would welcome any comments you would like to make.

Mr. Chairman: Does anyone recall whether this document was prepared after the softwood lumber matter? It is dated November, but the softwood lumber decision was about October 20.

Mr. Ashe: The forecast is based on a positive resolution of the softwood lumber dispute. We should recognize that it was there and it was after the decision, per se.

Mr. Haggerty: Or, in fact, changes in the political climate in the US now that the Congress and the Senate have changed the party positions.

Mr. Chairman: I think this was written before that happened.

Mr. Ashe: That was also in November.

Mr. Chairman: Yes.

Mr. Ashe: That and the softwood issue really were very close to each other in time.

Mr. Mackenzie: Yesterday in the Toronto Star there were the quotes and the points that would be needed in the interview with the US senator who is now chairman of the committee that was up here. Could that be circulated to members of the committee as well?

Mr. Chairman: That is a good idea.

Mr. Bond: I know the most recent issue of the Financial Post dealt with increasing demands on the US steel industry to curb imports of steel. That could have a big effect on the economy of the north.

Mr. Mackenzie: I am not sure whether he dealt with the steel industry. I know he made specific comments about the tradeoffs that would have to be made and the softwood lumber issue. It would be useful to take a look at it. I think it was yesterday's Toronto Star. It was a fairly lengthy article and interview.

09:30

Mr. Bond: The review does point out as well that 90 per cent of Ontario exports are targeted at the US market. In the light of that, and the fact that 35 per cent of provincial income is from the US, it makes it a pretty big factor and it is probably one that this committee should focus on and bring in witnesses to offer their alternative views on US protectionism and the whole question of free trade. Since this committee has developed a particular expertise in the area of free trade over the last few years, I think it would be a good area to look at.

Mr. Chairman: All right.

Mr. Bond: The second point is the impact of imports on the viability of the manufacturing sector. In the document, on page 8, they make this point:

"Export growth is weak this year in response to lower demand growth throughout the international economy, especially for resource products such as metals, oil and agricultural products. However, an improvement in the world's economic environment and modest increases in resource prices should lead to a stronger export growth in 1987." On page 12 they make the point, "Net exports will be a drag on growth in 1986 as the increase in imports outpaces the gain in exports."

Mr. Mackenzie: I wish I had in front of me the study--you referred to it before--that was done for the American Embassy in Tokyo that we had during the free trade hearings. That raised the concerns of some that we were on the verge of seeing an investment over the next few years in this country in Japanese-owned parts plants and whether that is not a direct import. If they set up a parts plant operation here, the direct effect it has in terms of the current production in parts plants and if that scenario that was laid out has any validity at all, what does that do? Does it have any influence on the

import-export situation? It is really not a direct import but it could very well mean a loss of sales to some of the parts suppliers we currently have operating. How does that fit into this, or does it?

Mr. Bond: I agree.

Mr. Mackenzie: That was a fairly scary prediction if I recall it correctly.

Mr. Bond: Recovery in 1982, 1983 and 1984 in the Ontario economy was fuelled by the automotive industry here. The automotive industry is not just the large auto makers themselves but it is the huge support industry that goes along with it--the auto parts manufacturers. That would be a definite factor. We mention it on the second page but it actually could be dealt with under the impact of imports on the viability of the manufacturing sector.

How will Japanese auto investment impact on the Canadian auto industry? I worked in that field for a number of years and it is a concern.

Mr. Mackenzie: Is there any indication that is taken into account in this document? That is really what I am concerned with because there are few things that could have more major impact. In the study we were given, was this possibility considered seriously or not?

Mr. Bond: I think there is a reference to it on page 35.

Mr. Chairman: The problem as I see it, from what Mr. Mackenzie is saying, is that the trend towards a net import situation may be even greater than we think, if parts production occurs in this country, which could still result in some economic problems.

Mr. McFadden: Just a minute. Some of this does not make all that much sense.

Today, if they are bringing their cars in from Japan and purchasing no parts from here, then we are clearly in deficit. If they are assembling here but purchasing no parts here, as they seem to be doing, we are in a clear deficit position. If they are assembling here and purchasing their parts here, that has to have some positive impact. The negative impact we have is not related to import-export. Surely what they are doing, net import-export, is probably helpful to Canada on that scene.

The issue the car manufacturers talk about is not whether the Japanese are going to locate parts plants here so much as the overcapacity we have got ourselves into and the concern that the way in which they are sourcing without purchasing parts here clearly prejudices the North American manufacturers.

I am not sure the fact that they set up parts plants is having any effect on balance of payments. I think that has to be helpful on balance of payments. There are other issues that might arise from that, but I do not see how the location of an assembly plant and then the acquisition of parts in North America will hurt our economy. Surely that is helpful net.

Mr. Chairman: I do not think any of us disagree with that. You just said it a little better.

Mr. Mackenzie: The scenario in the study was that there was a possibility, given the current climate, that these plants would be set up at

no cost to the companies. There would be a hell of a lot of effort in terms of assistance and tax breaks in setting up the plants that you would probably lose in terms of the wage and benefits level of the people in those plants. They would be the suppliers, but they would branch out from there as well. There was a serious threat posed over the next four or five years to some of the existing parts manufacturers in this country.

Mr. Bond: It is definitely the parts manufacturers that will be affected, because they cannot or have not been able to sell to the Japanese auto makers.

Mr. Mackenzie: On the other hand, there is a real potential down side.

Mr. McFadden: Heretofore they were not selling anything to the Japanese because the Japanese were not sourcing in Canada for manufacture of the final auto in Japan. Of the plants that are now being set up, only Honda has gone into production. Toyota is not in production yet, nor is Suzuki; therefore, it is a little premature to make an assumption that they will not source here, that they will not source any Canadian companies.

In terms of net economic impact, given the fact that these plants are here--one thing we do not know is the total subsidies they have received--if they are sourcing parts in Canada that they would otherwise source in Japan or Korea, even if the company here is either a Japanese-Canadian joint venture or all-Japanese, we are still farther ahead than if they source everything in the Orient and bring it in here, as everybody was worried they were really doing. That has been the worry, as I understand it, of General Motors and others. They were basically setting up assembly plants, bringing stuff in like a Meccano set from Japan and just having a few people put in some bolts and then say it is North American made.

The more money they are prepared to put into parts plants here, the net effect of their investment is certainly enhanced. It still does not deal with the issue of surplus capacity, which is another issue altogether.

Mr. Bond: The Japanese auto plants have promised to begin sourcing from Canadian auto parts manufacturers, but none of them has set deadlines. It will be a very gradual thing. In the meantime, there will be a shake-out. General Motors, Ford, Chrysler and American Motors will have to compete with these Japanese-built cars, with the parts still being brought in from Japan for the most part. Canadian auto parts makers will find it very difficult even to sell to the domestic auto makers. GM, Ford and Chrysler are all offshore sourcing their parts as well to compete with the Japanese and other imported cars in terms of quality and price. It is not only the Japanese; the Koreans and some European countries are bringing in lower-priced import cars.

09:40

Mr. Chairman: The comments you point out on page 18 seem to suggest that the Treasury is not looking to that industry as a source of huge net growth.

Mr. Bond: It is actually an industry that will be in serious trouble in the next few years as it is unable to compete. A lot of the smaller industries will be shaken up.

Mr. Mackenzie: That seems to be the inference of the study that was done by the US people in Tokyo.

Mr. Bond: The review does point to the Japanese investment in the auto sector as a very positive factor. On page 36, the point is made that the Japanese are anchoring their export markets by making substantial investments in assembly plants in Ontario. It goes on to list the dollars they have invested: Honda, \$200 million; Toyota, \$400 million; Suzuki-GM, \$500 million.

Mr. McFadden: At the bottom of page 35, you list the AMC investment of \$764 million, which is the second largest investment being made. One of the views I have received from the auto manufacturers--and as I recall, this came out in the testimony as well--is that AMC may not survive. Its balance sheet is terrible. There does not seem to be any particular demand for its product. At a time of growth for the industry, not only is its market share dropping but also the company has been steadily in the red.

Looking at it from the point of view of investments in plants, it may be adding a bit of tinsel about what might happen in the future. If AMC's market does not improve, I question how long a plant of that size will be around. The parent company, Renault, lost \$2 billion last year in Europe. Here is the second largest investment in a company that is not selling and is losing money. You have to wonder how long it will actually be in production. I wonder what assumptions are being made on that score.

We had that scene at Canada's Wonderland where 100,000 people applied for 3,000 or 4,000 jobs. I raise a question the industry itself raises as to the viability of that plant and the whole company. I do not know what assumptions are being made. How many of these plants that have now been expanded or built will be in business in several years? How viable is all this investment?

I am not questioning the business acumen of these companies. I am wondering about the gigantic investment, while at the same time they are telling us about overcapacity and everything else that is going on. I worry that we will have these companies tied up with huge capital investments, potentially strapped for money because of all the capital investment. If there is a downturn as well as an overcapacity, we have to wonder what will happen in two or three years.

I just raise the question of what assumptions are being made for all these plants, not just domestically but export-wise. With this additional capacity, we will have to show some growth somewhere. You have to wonder how many of these plants will be operating anywhere near full capacity.

Mr. Chairman: That is something we perhaps can ask Treasury officials if they are monitoring. If I may comment, I presume the plant that is being built is modern and, therefore, if AMC went under it might be of some interest to one of their competitors.

Mr. McFadden: But they are already expanding.

Mr. Chairman: I know they are. I do not know which one would want it.

Mr. McFadden: I do not know who would want to take it over when they have already built a new plant.

Mr. Mackenzie: I am not sure what the ministry can say because I doubt they want a negative scenario. You can put that on the whole situation. We do not know whether the industry representatives who appeared before us, who were pretty definite about the problems that American Motors were in, were

doing it for their own self-interest or whether it was a valid argument they were making.

Mr. Ashe: It will be interesting to see who is crazy enough to lend them all that money. It does not look like they have too much collateral.

Mr. Mackenzie: That does not seem to be too big of a problem.

Mr. Chairman: These are all valid points to raise. I remind the committee again of page 18 where the report does say, "US market for new cars and light trucks is not expected to repeat gains made in 1984 and 1985." It goes on to say, "The auto sector will be a less important source of export growth," although they do not expect a "drastic reversal."

Mr. Bond: It would be interesting to know what their forecasts are for growth and demand for automobiles both here in Canada and in the United States, although the American market is of course far more important to Canada.

Mr. Mackenzie: I do not know how far we go in trying to do this kind of assessment. If I can use my own town as an example, there was a fairly hefty government investment in renewal in the Firestone plant but the decision, in terms of corporate rationalization, was not to produce the radial tires but to stay with the other kind with one or two minor exceptions. Already, after two or three years of what looked like fairly healthy and renewed growth, there are serious questions being asked and there is concern among the 1,500 employees as to the future of that plant. We have just finished putting I forget how many millions of dollars into it.

One has to wonder whether their rationale of seizing on the remaining market for nonradial tires was a smart one in terms of almost a world product mandate situation, although it is not the only plant in that situation. But if the wrong decision has been made there, then we are looking at a 1,500-person plant in our town that could have some problems. Certainly, it is a perception and fear right now among many of the employees.

Mr. Bond: Given the fact that the demand for automobiles can be looked at as a series of peaks and valleys, when are we going to be into the next valley? Given the fact that Japanese auto sales are what they call recession-proof--even when the demand is very low, the Japanese have been able to maintain their sales; the demand is high, and they offer quality product--the effect on domestic industries, on GM and Ford, could be very serious.

Mr. Chairman: I think we have raised some interesting questions. Let us move along to some of the assumptions, unless you have something more to say.

Mr. Bond: No. There are other areas. The automobile industry is only one area that is affected by imports.

The next point has to do with assessing the validity of assumptions and the implications of the assumptions. The first point is that the inflation rate will decline; there are references to that on pages 23, 24 and 43.

First, the recent decline in oil prices should consolidate a lower inflation rate. We will be dealing with oil prices further on as well. The second point relates to what the review thinks of as the positive effect of oversupply of raw materials on the international market, which they point out is also exerting downward pressure on inflation.

09:50

Mr. Mackenzie: In terms of this study, does the government have a handle on what percentage effect the energy and oil industry prices have on the possibility of a further decline or an improvement in our economic outlook? You almost have to carve out oil and energy from metal prices in the world. But if you were looking at the two, which is the major factor?

As an outside observer, it seems to me there is a little more likelihood of the metal prices remaining relatively depressed, given what I hear about some of the supply situation. I think it is a hell of a lot more volatile in terms of oil. Even some of the recent changes in direction from the Saudi people indicate to me that we do not what is going to happen for very long in terms of the oil prices. That is why I wonder how much of a factor oil is in this whole equation.

Mr. Bond: That is a good point. I do not know any more than you do about what oil prices will be doing in the future. It is a major factor. Raw materials is also a major factor for Canada because we are perceived as being a country whose economy is based on primary resources; so that affects our exchange rate and our inflation rate.

Mr. Taylor: But there are figures around that say if a barrel of oil goes up by \$1 we lose X jobs in Ontario. We had those figures a decade ago. Whether we have them currently, I do not know.

Mr. Mackenzie: That is what I was trying to get at. Do we have anything that tells us how much that means in terms of deciding what is going to happen to our economy as against some of the other prices?

Mr. Bond: The review points out that nominal oil prices are assumed to rise in line with inflation. In other words, they are saying it is not going to be a key indicator for which direction the economy is going.

Mr. Mackenzie: In effect, they are anticipating the price is going to stay where it is now, with the inflationary rise.

Mr. Bond: Yes. If inflation drops, they are saying, it will stay with it; so presumably oil prices will fall a little too.

Mr. Mackenzie: You have seen the dip there to as low as \$10, and I understand it is back around \$15 a barrel right now. It is not just an inflationary possibility. You probably cannot predicate your whole budget on it, but if you have a jump back up to \$20, that is not just four or five per cent inflation; what does it do to us?

Mr. Bond: On page 11 they have a chart that shows the direction in which world oil prices are moving. They are predicting a stabilization or a fairly stable increase.

Mr. McFadden: Can I ask a question about oil prices? The chart on page 11 shows us into 1985 with the oil price at about \$30 and then it dips. We were in the midst of a major economic rebound in Ontario at a \$30-a-barrel oil price. It was not that our economy turned around only as oil prices dropped. We had the rebound with oil prices up to \$30 a barrel.

I am curious to know if there are any figures to validate the argument that in terms of the health of our customers in Canada, and perhaps even

abroad, low oil prices could even be a drag on our economy? There is a point at which there is not a lot to be gained in the sense that the consumer gains to some extent, but economically the question is whether there is some merit in having Alberta or Saskatchewan, and other international markets, having stronger economies.

I am curious about that because I noticed, according to this chart, our economy has not got any stronger essentially in Ontario as a result of this sudden drop. There may be some gains in terms of the rate of inflation, but the big period of economic growth, it seems to me, occurred before the drop. I am curious to know what the impact is and if there are not a lot of other factors that bear on this. I wonder whether anyone has looked at the effect of these unusually low oil prices on our market. Perhaps it has no effect at all; I do not know.

Mr. Bond: The review does make the point that oil prices provide a net stimulus to the Ontario economy.

Mr. Taylor: Increases or decreases?

Mr. Bond: A decrease and lower oil prices provide an increase or a net stimulus to the Ontario economy. Oil prices and raw material prices had a direct link, I believe, to the value of the Canadian dollar. It would probably make Ontario industry more competitive by depreciating the Canadian dollar. That would be a direct effect of lower oil prices. It would make us more competitive on international markets.

Mr. McFadden: By transference then, you could also say low commodity prices should be doing the same thing.

Mr. Bond: Oh, they do.

Mr. McFadden: In other words, nickel prices should be kept low because that is a good encouragement to our Canadian manufacturing.

Mr. Bond: The review says that lower resource prices have made Canadian manufacturing more competitive.

Mr. McFadden: It is an interesting thing that we have in Canada then. Southern Ontario does well as the north is depressed and as the west is depressed. In fact, the more depressed they are, the better we are here.

Mr. Bond: The more competitive we are vis-à-vis the US.

Mr. McFadden: Interesting, is it not?

Mr. Bond: It is. I found it very interesting.

Mr. Ashe: It is building another case for separation.

Mr. Ferraro: I want to carry on to a degree what David was talking about. Doug and I were having a little chit-chat in this regard. When we take into consideration what has an effect on the province or the country as a whole, when we isolate the energy and oil situation, we could argue in different perspectives that the interest rate factor is probably the most important. If not, it is certainly one of the most important factors as to how our economy performs and is directly related to consumer spending. Getting on track, the question--and I do not know if David has the answer to this or if

someone else does--is, what effect does the oil and gas situation have on interest rates?

We know now we are paying \$26 billion less than we did a year ago for oil. To what degree did that effect the reduction in interest rates? If oil and gas went back up to \$26 or \$30, what would happen then? I am trying to isolate the energy sector, if I can. I am not sure one can. I am trying to figure out how that affects interest rates.

Mr. Bond: I know it would affect inflation. I do not know how it would affect interest rates.

Ms. Cotton: It would also be a question to put to Treasury when they are here next week. We will make a note of that question and put it to Treasury next week.

Mr. Ferraro: Am I right in the assumption--and maybe other committee members can tell me--but personally I think interest rates will determine how the economy performs in terms of loss of jobs and creation of jobs?

Mr. Mackenzie: In response to Mr. Ferraro's comments, would this not depend on the kind of money needed, if the price went up so that it was useful once again to get into the things like the tar sands and the big production out west. That is where it would probably have an effect on interest rates--the amount of capital one would be borrowing to undertake that kind of capital expansion. I do not think the price, in terms of what we import or export, has a hell of a lot to do with the interest rates, but certainly it would be the demand for capital to meet the demand if we could not get it from offshore or if the price was high enough that it was worth the new investment in the oil-producing regions in western Canada.

10:00

Mr. Ferraro: I think you are right. I am trying to look at the whole industry, if I can refer to oil and gas in perspective. To reiterate, what I would find interesting is to look at various volatile entities such as oil and gas and how that affects the interest rate.

Mr. Bond: We will make a list of your questions and make sure we put them to Treasury next week. We are not really prepared to answer them here.

Mr. Ferraro: Thank you.

Mr. Chairman: Is there anything more you want to say on the inflation rate?

Mr. Bond: I wanted to make the jump to the resource sector because we were leading into that anyway. Excuse me for jumping around on the bullet points, but some lead into others.

Mr. Chairman: Can I ask a question on the inflation rate? It is a question I asked Treasury officials when they were here, but I am not aware of whether I understood the answer.

I read somewhere in the last couple of weeks in the popular press that Canada was the only major western country whose inflation rate increased slightly last year. The article I read seemed to suggest that was not healthy in view of the fact that other major western countries were having decreased

inflation rates. In fact, I think one western European country was predicted to have a negative inflation rate next year. Can you comment on that? Is that something we should be raising a red flag about?

Mr. Bond: We had a higher inflation rate in 1985?

Mr. Chairman: I think it went up from four per cent to 4.5 per cent in Canada where it is decreasing in other countries.

Mr. Taylor: Was it 3.9?

Mr. Chairman: It may not be terribly significant. I just got the impression from this article I read that somebody thought it was significant. I will leave it hanging there. Move along to what you want to move along to.

Mr. Bond: I am just looking at the resource sector. In the late 1970s and early 1980s, strong resource prices led to rapid domestic inflation, increased strike activity and high wage settlements relative to the United States. In turn, since 1982, the weaker resource sector has moderated domestic inflation and wage settlements throughout the economy. Lower resource prices have also weakened the Canadian dollar, further adding to the improved cost performance in Canada, making Canada a more competitive country in the area of manufacturing. This is an example used in the review on page 32. It says:

"Between 1981 and 1985, unit labour costs rose by 12.4 per cent in the US and 19.8 per cent in Canada. However, when exchange rate movements are taken into account, unit labour costs in Canada--measured in US dollars--increased by only 5.2 per cent," compared with 12.4 per cent in the United States over the same period.

This resulted in a depreciation of nearly 10 per cent in the Canadian dollar. That is an interesting sideline, the fact that the Ontario economy does perform better when resources are depressed. At least the manufacturing sector will perform better. The primary resources sector, of course, is hurting.

Mr. Mackenzie: I may be ranging a little far afield here. I presume it would be an additional cost to us, but is there any indication as to whether the ministry has taken a look at what the net position would be in specific product areas? For example, if we were to reopen some of our northern Ontario ore mines, increase production at Wawa or open up one or two of the iron ore mines that have recently closed over the past few years and specifically cut back on what we are importing from the Tilden operation, from American operations anyway in Minnesota and Wisconsin, what would the net loss be to us in terms of the additional costs or the additional processing that would be needed in the ore as against what we are losing in any event?

I am thinking specifically of northern Ontario and the difficulties they have up there with the closing of two or three of the towns as a result of iron ore mine closures and what looks like substantial layoffs coming at Wawa. Have we ever tried to say what kind of additional cost this would be to the economy of Ontario? I guess I am asking about the balance of loss in terms of higher cost to the industry in using more of our own domestic product as against what we are--

Mr. Bond: I am not familiar with any studies such as that. Perhaps we can put that question again to Treasury.

Mr. Mackenzie: There are probably other areas, but I am just wondering if they have actually taken a look at the financial ramifications of that kind of move?

Mr. Bond: I do not know.

Mr. Taylor: If the Tilden mines were closed down, we would be overproducing. We would be stockpiling iron in Wawa, and Algoma Steel would close down.

Mr. Mackenzie: It is a question of supply. I am not sure.

Interjection.

Mr. Mackenzie: I understand what you are saying about the mechanics of it, but I am saying the actual cost because sooner or later those are kinds of decisions we may have to take a look at in some of the areas.

Mr. Chairman: I heard a story on this morning's news--

Mr. Mackenzie: If you are talking about content legislation, if you are talking about meeting more of your own needs when you are in trouble economically, those are some of the things a family would do and that a nation has to look at every once in a while. I am not sure that one cost would not match or outweigh the other. The automatic assumption is almost Jim's reaction, that it has to be done because of the deals between the companies and to keep them operating. However, I am not sure if the government has assessed the total picture that carefully.

Mr. Chairman: I am trying to think of an instance where it has been done successfully. There may be some.

Mr. Ashe: Is that not really the whole issue facing the United States in a much broader sense on this whole issue of free trade and protectionism? If they decide to go the same route alluded to here--I am not saying suggested--that is when we are really in trouble, when they look more and more at their problems in their economy and their unemployment, particularly in certain sectors and say: "We are just not going to buy that stuff in Canada even though it is cheaper. We will buy our own even though it is more expensive to produce."

I appreciate that you cannot do that in everything if you do not have that availability, and in most sectors that is really the issue.

Mr. McFadden: That is certainly the argument with the softwood manufacturers and the shakes and shingles people. Canada was undercutting them, so they wanted to knock us out of their market.

Mr. Mackenzie: I am not sure that is actually the case, and that is why some of the industry and a lot of people think they can win that case hands down.

Mr. McFadden: I think what you get at, though, if you look at the economics of it, is the same thing almost applies in this respect. What the Americans are saying, forgetting about their law for the time being, is that Americans should be employed and they should not be bringing in 35 per cent of their softwood lumber from Canada. Why should Canadians be getting the jobs supplying Americans?

Mr. Mackenzie: That is exactly the same argument, although they have never said it out loud, the Japanese have used for years. They have protected their own local industry and market.

Mr. McFadden: If you take that to the logical extension, I question whether we would gain in the long run as a country and a province, if we followed that strategy. I think we would be shut out of more markets. Any gain we would make in one place would be lost probably triple elsewhere, given the fact we have a surplus now.

It might be worth while to take a look and see how you could set up a model that might indicate the cost of all this. I think it would be very difficult because you would have to take into account the government-to-government impact of that on all kinds of other industries that might not be related specifically to that one sector about which we are talking.

10:10

Mr. Bond: There were a few other points in the resource sector as well. The review says: "The primary sector in resource-based industries, while improving on their 1981-85 performance, will show the least growth." That is probably a fair assumption. "Slow growth in world demand for their products will persist. Raw materials will continue to face oversupply on world markets."

On page 24 they make this assumption, "It is expected that there will be a modest firming of raw material prices from their current low levels." I do not know if their other statements really follow this assumption or whether this assumption follows from their earlier statements. That is a question we will have to ask them as well. If there is not a modest firming of raw material prices, what is the effect going to be on some of the single-industry mining towns in the north?

Another assumption is that residential housing market will remain buoyant. On page 8, they say, "This year's buoyancy in the housing sector is expected to continue in 1987 because of pent-up demand and the possibility of further declines in mortgage rates."

Then again on page 14, they say, "Buoyancy in the housing sector will persist for the remainder of 1986 and continue into 1987." There may be other alternative forecasts for the residential housing market. The Royal Bank in one of its forecasts for Ontario's economy in 1986-87 believes the housing market will ease somewhat in 1987, with housing markets likely to fall.

Mr. Ashe: It has already started.

Mr. Mackenzie: On that equation, do we have any indication whether or not a look at this situation has been taken with regard to splitting the housing market? I do not think anybody can give you an argument that there is not still a substantial need in terms of lower-income housing. I do not what everybody else has, but that is the problem in my riding and it is there in spades.

I sense that there is a slowing down in the free play of the marketplace, and that is the more expensive and higher-priced houses. Are there any implications in that? It is much more difficult, regardless of what side of the fence you are on politically, to get money put into fixed or lower-priced housing.

Mr. Haggerty: That same scenario can run in the automobile manufacturing industry too--higher-priced cars.

Mr. Mackenzie: It may as well.

What kind of stimulation are you going to see in that kind of housing which tends to be government stimulation if you are going to get fixed or lower-income housing? It is not nearly as likely to get the private capital. Are they averaging it when they say it looks like another half year or a year of healthy housing growth? Has anybody been able to do any kind of an assessment of where the growth is that is still going to continue?

There is a copy, Mr. Chairman, if you want to make it available to the members of the committee. I think there is some implication there of what is happening to real estate.

Mr. Chairman: Concerning the point you are making right now, Mr. Mackenzie, I do not know whether it may mean that if there is a slackening in the demand for higher-priced housing, with the capacity that has been set up in the last few years, there might be more incentive.

Mr. Mackenzie: Is the money going to be put into it? Maybe this is not even a valid question, but it immediately comes to my mind. Is the money going to be put into it, if it is more of what you would call "social housing"? I suspect it will not be to the extent that it has any real impact on that as being one of the factors in keeping our economy healthy or otherwise.

Mr. Chairman: Unless there is government involvement.

Mr. Mackenzie: Unless there is government involvement. Others, of course, would disagree with that. I am not making that as a political point; I am just saying I suspect there would not be the incentive to put the money into it, if that is what we are looking at.

Mr. Haggerty: If the interest rates remained as they are, there are forecast projections that the housing will improve. A lot depends upon where interest rates are going.

Mr. Bond: Mr. Haggerty is quite right. This assumption is based on a forecast that interest rates will decline.

Mr. Mackenzie: However, there is no serious look at what kind of growth is likely to be needed or there. So we have to assume, and accept the premise here, there is still a healthy demand for high-priced housing. It would seem to me that is a valid question.

Mr. Ashe: All housing is high-priced, unfortunately.

Mr. Haggerty: In our discussion with the ministry staff on the economic outlook--it just came in the mail today--the matter was raised and Dr. Purchase said: "We acknowledge the serious problem that currently exists. Our forecasts are also saying there have been enormous productivity improvements in these industries." He is talking about lumber exports. "You can find there has been some flattening out in some cases, some modest improvement in the prices of metals, but there has also been an improvement in terms of unemployment in many of these industries."

"The same has been true in forestry. In some cases, there have been huge increases in output because of the strong growth in demand for sawn lumber. You can see this phenomenon in British Columbia, which is heavily dependent upon the forest industry. The whole economy is deeply dependent on it. The US economy was booming in so far as housing construction was concerned, and there was a booming Canadian economy in terms of housing construction, yet there has not been a recovery in employment in that industry."

He goes on to say: "Part the reason is the dramatic improvement in productivity that most of the companies have succeeded in accomplishing since 1982. They simply do not need as many workers as they did before. They have machines that can do a lot of the work that was traditionally done by labour."

"Even with some improvements in the economy and with improvements in the resource sector, you cannot necessarily expect strong growth in employment in those industries."

Mr. Mackenzie: There is another factor. It is a very small one. We may have covered this too long, Mr. Chairman; I do not know. However, my son-in-law is a small contractor who does quite a lot of building and I keep asking the question, why is it more difficult to get the socially low-cost housing or the incentive to build it? All of the factors are working with them, anyhow, in terms of the cost. He says in most row houses, town houses or low-income housing, there is probably more automation and less manpower needed. So in themselves, they tend to be a somewhat lower-cost item. Even with that advantage, that is not the area, without the incentive and government dollars, where housing is built. He tells me, and I suspect it makes sense, that there is already a cost advantage to a builder in terms of building a number of low-income houses.

Certainly, that has not been an incentive in terms of the feeling that there is any profit in it or desirability to build them.

Mr. Chairman: It is a valid point to raise and pursue: To what extent is the market itself going to solve the problem without more government intervention?

Mr. Haggerty: As Mr. Mackenzie said, we are looking for affordable housing. There is no doubt about it, if we put affordable housing out there, you are going to have more buyers. You can travel through different communities in Ontario--even the Niagara region--and you can see the wartime housing that is out there. It provided satisfactory housing for a number of years. Some have made improvements on them. You could buy those houses back then with very little down.

Today, through planning in that municipality, you have to have an 80-foot lot 200 feet deep--something like that. They are great, big things. Through different restrictive area zoning bylaws and things they have, they say you have to put up a house that is \$85,000 to \$90,000. Yet there is nothing out there indicating the lower-income person. I suppose this is one of the problems we are facing today, this spread between incomes. I suggest there are methods you can use out there. You can put a nice home on a 40-foot lot, probably for half the cost. However, somebody has geared the economy up to a salary of \$60,000 a year or so, and this is what we look at.

10:20

Mr. McFadden: Why do we need 40-foot lots?

Mr. Haggerty: If you want it, you have your own private land ownership you can do it on.

Mr. Chairman: There are a lot of really nice homes in your riding, Mr. McFadden, on smaller lots.

Mr. McFadden: That is right. I have a 25-foot frontage. I think a lot of our problem with affordable housing is that we have zoning bylaws requiring 40, 50 or even 80 feet.

Mr. Haggerty: That is right.

Mr. McFadden: Then you start adding all the building code requirements that often overdesign homes and you really do force a price rise that is not even needed, and that is by legislation. Some of it is taste and so on, but you take a look in the older home areas and people for generations have lived quite comfortably in 25-foot or 30-foot frontages.

Mr. Taylor: That is another whole issue.

Mr. Chairman: Yes, I know and I do not want to pursue this too far because I do not know whether we can solve all of those problems with our budget. Is there anything else you want to say on it?

Mr. Bond: I just want to make the point that I guess the reason residential housing is so important is because the review makes the point that increases in consumer demand account for more than half the real growth in output in both 1986 and 1987, and it is investment primarily in residential construction and machinery and equipment that is expected to generate at more than 40 per cent of real growth in output in 1986 and more than 30 per cent in 1987.

Mr. Chairman: That is on page 12.

Mr. Mackenzie: Yes, I think that is very valid in terms of how closely we have looked at this whole housing deal, where the growth is going to be and who is going to be sparking that growth: demand, interest rates alone, government involvement in lower-income housing or what?

Mr. McFadden: One question I have is the buoyancy question. I would be curious to know the basis on which that decision was reached. I know there is a major study that is done semi-annually; a private study of homes that is cited in the papers and so on that deals with consumer plans. I know the provincial Ministry of Housing is a subscriber, as are various government agencies, private developers and everybody else.

I am curious to know the basis of the decision of buoyancy. Who is it who is buoyant. Where are these people and what types of people is it buoyant for? It has to be more than just a crystal ball that they look at. I am just curious. Maybe we could ask them, but I would like to provide it as a question. If necessary, it might be interesting as we go down the line to have a time with some witnesses who could explain to us the basis on which that assumption has been made and who it is that it is benefiting or whatever.

Mr. Chairman: That would solve a lot of problems, if we could really answer those questions.

Mr. McFadden: It would be interesting to know.

Mr. Chairman: All right?

Mr. Bond: Sure.

Mr. Chairman: Do you want to take another point?

Mr. Bond: Shall we look at consumer demand?

Mr. Chairman: All right.

Mr. Bond: On page 12 at the bottom, they make the point that consumer spending, which represents more than half of aggregate spending, would be the main contributor to sustained expansion of the economy. In particular, the consumption of durables will remain robust. However, on page 13, which seems to be slightly contradictory, they make the point that the higher federal personal income tax rates that came into effect this year will tend to dampen expenditure growth. Again, they say this is expected to be cushioned by the impact of low oil prices.

Mr. Ashe: Does it make any reference to the provincial government surtax that was temporary?

Mr. Bond: No, I do not believe so.

Mr. Ashe: Is that not amazing?

Mr. Taylor: That is selective.

Mr. Ashe: Yes, very selective. I think that is a valid question. I really do. We had a temporary surtax provincially that is now, for all practical purposes, indefinite. If one has an impact, surely the other does as well.

Mr. Taylor: It is the policy of the provincial government to dampen the Ontario economy by surtaxes.

Mr. Chairman: Mr. Taylor, you are trying to provoke us.

Mr. Bond: They make the point, again on page 13, that a strong housing market, along with declining interest rates, should sustain a robust demand for consumer durables such as furniture and appliances. This is part of the consumer demand.

Mr. Haggerty: That is one of the reasons the houses are as high as they are today. When you go to purchase a new home, you have all your appliances right there. You are spending another \$10,000 on top of the cost of that house because all the appliances are there and the rugs are usually put down. You just move in.

Mr. Mackenzie: I wonder if we could also look at the first point they make: "There will be a modest deceleration in nominal personal income growth to 7.8 per cent in 1986, down from 8.2 per cent..." and then down to 7.3 in 1987. I may not understand something too well, but the increase in salaries has been nowhere near eight or seven per cent for the last two years.

I presume, by the way this is worded, they are considering investment or interest income, deposit rates and so on as well. The question in my mind is what percentage of the people would be above and below that kind of nominal income growth.

If, as I suspect, it is heavily weighted in terms of those who already have a pretty fair income, you have to question how much consumer spending on hard durables there will be if those are the figures they are using for that argument. If we are talking about that kind of growth because of people who have the money socked away, other than that they may change their refrigerators more often than the rest of us, there are not necessarily going to be that many people who have the ability to buy the new hard goods. Am I wrong in that assumption? That may be the average, but I wonder how many of the people in the province have had that kind of income growth.

Mr. Ashe: We have.

Mr. Mackenzie: We have not as members and I know that most people, even at plants where they have good unions, have not in the past few years. Are those figures weighted in terms of the percentage of the population that has that kind of an income growth or, obviously, even more, if that is the average?

Mr. Haggerty: That begs the question of how many people are out there with this kind of income growth to spend.

Mr. Mackenzie: Perhaps I am misreading it entirely. I am just asking the question.

Mr. Haggerty: If you look at the problems with the structure of General Motors today in the US, it is going downhill. One of the comments in the studies that have been made within GM and other companies in the US is that compensation for management employees is too high. They have indicated that in the US and I suppose you can see that trend following through here. The rich get richer and the poor get poorer. That is about what you are saying, is it not? That is what they are talking about. The industries in the US are backsliding a little because of overcompensated top management.

Mr. Chairman: We will have to have the Treasury address where these figures came from and what exactly was involved in the calculation.

Mr. Mackenzie: I am darned sure most working people have not had an 8.2 per cent increase. If you broke it down into quarters--the top, the second, the third and the fourth quarter--would we find that three of the quarters were substantially less and one of the quarters was substantially higher? If that is the case, does that not have an impact on this whole argument that there is going to be more buying of durable goods and consumer purchasing?

Mr. Chairman: Yes.

Mr. Mackenzie: If that is the basis for it, then it is not necessarily true, at least as I see it.

Mr. Chairman: We will have to get the answers from Treasury. Okay?

10:30

Mr. Bond: I am just touching on various assumptions. If there are any other questions on that, please just ask.

Mr. Chairman: Are there any other questions on consumer demand? Okay. Let us move along.

Mr. Bond: Next, I wanted to look at business investment. They make the assumption on page 17 that demand growth is expected to remain firm, thereby providing the main impetus for continued strength in business investment. Again, I wonder if they are taking into account all of the tax measures we have spoken of today or any changes in business taxation. The federal government might be introducing the ad valorem tax that has been talked about, for example.

Mr. Chairman: How can they really guess, though?

Mr. Bond: Treasury might have looked at it and prepared impact studies for the effect on the private sector.

Mr. Chairman: Yes, on the assumption there is going to be a federal budget before there is a provincial budget.

Mr. Bond: There might be other groups that have looked at this measure. For example, the Metropolitan Toronto Board of Trade represents various sectors of private industry. It may have looked at this and at what the effect will be on Ontario's various manufacturing sectors.

Investment in manufacturing will account for about two thirds of the expansion in total business investment in 1986. That is on page 32. They also make the point that substantial increases in investment are expected in the transportation equipment industries, which is essentially automobiles, followed by metal fabricating and machinery industries.

It might be worth while to have a closer look at that area.

Mr. Haggerty: That 10.8 per cent forecast for machinery equipment and spending is rather high, is it not?

Mr. Bond: It may be. Again, I think it is something we will have to address to Treasury.

Mr. Haggerty: Yes. You have some expansion in the automobile sector, but you have other industries closing and phasing out. There is no growth in the mining sector or the forest industry. There is a decline in the pulp and paper industry. They say, "may advance by a solid 10.8 per cent."

Mr. Bond: I think it would be worth focusing, especially under manufacturing outlook, on the transportation equipment area on page 35. In 1986, real output in Ontario's transportation equipment sector is expected to increase by 4.5 per cent. However, for 1987, with new production from Honda and the American Motors Corp. coming on line, real output is anticipated to increase by five per cent.

I wonder if this takes into account the dampening effect of a number of the auto parts manufacturers' slowdown in production, or even plant shutdowns, in that area.

For the medium term, the 1988-1990 period, continued real growth of 2.9 per cent per year is forecast. Again, this is buoyed by new investment by both the US and Japanese auto companies.

Mr. Haggerty: I believe David raised that earlier on.

Mr. Mackenzie: For whatever it is worth, and I do not know, this document I just sent around also has some impact on it because we do not know

what the effect is going to be on the auto pact or the auto industry here. If any of the scenarios as outlined in that document are accurate and we see that kind of growth in the US, it is very likely to undermine substantially the auto pact in this country in terms of the purchasing that would be done from existing suppliers.

Mr. Bond: The impact of the Japanese auto assembly operations that have set up here in Canada will be an increasing competition and it will increasingly force GM, Ford and others to do more offshore sourcing of parts to be competitive with the Japanese imports.

Mr. Haggerty: I do not know. Just take what Ford is doing now. To sell their trucks and cars, they have brought the interest rate down on some of the vehicles to 3.9 per cent, because they have the market flooded with them. Someplace along the line you are going to have a market flooded with automobiles and no buyers; there is going to be overproduction.

Mr. Chairman: I think we can meet that problem. I appreciate Mr. Mackenzie providing us with the situation report and I think we have some questions--

Mr. Mackenzie: We all got that. I just got it in the mail during the free trade hearings.

Mr. Chairman: That is right, but I think some of us had forgotten about it. We have some questions there on the plate already on that subject.

Mr. Bond: The next point we could look at is that the Canadian exchange rate will remain stable. The reference to that is page 7. We make the point in the document that the Canadian dollar has depreciated significantly against the currencies of Japan, West Germany and France. This depreciation of the Canadian dollar enhances the competitiveness of Ontario products, both in North American markets and overseas. However, if you take into account the rising tide of US protectionism, you have to ask, is this not also likely to be a trade irritant with the US?

Treasury made the point that it would be very difficult indeed to reach any kind of free trade deal if the Canadian dollar went below 72 cents US.

Mr. Ashe: The point is made here that the depreciated value of the currency has helped the situation with Japan, West Germany and France and of course has helped us in the North American market too. The other side of the same coin is that those exact same countries have a depreciated US dollar. That is why ours is lower. It is not because of ours per se. It is just because we followed along with the US dollar. It also makes the American products more competitive in those countries, and yet they still have a huge trade deficit.

I do not know how strong that is for Canada. If you think of what goes out of the North American market to other countries, particularly out of Ontario, it is relatively small. It is less than 10 per cent outside of what we do not ship to the US.

Mr. Bond: That is a good point. Treasury also expressed the view that a significant increase in appreciation of the Japanese yen against the Canadian dollar--and I have heard figures from 40 per cent to 60 per cent--will force the Japanese to cut exports of automobiles to Canada and force them to do more sourcing of auto parts and assembly operations here in Canada. I do

not know if that assumption will really hold water. The fact that sales of Japanese automobiles have been recession-proofed will also mean that, given the appreciation of the yen, in all likelihood they will still be able to sell their product here, even importing it directly.

10:40

Mr. Taylor: By lowering the price.

Mr. Bond: By lowering their price. North America is the only market where Japan makes money on automobiles. Japanese auto makers do not make money in Japan. They run at a loss in Japan. They make their money in North America.

Mr. Ashe: Cars sure are not cheap in Japan.

Mr. Bond: No, they are not. It is a very competitive market.

Mr. Ashe: Among there own companies. Not much offshore comes in.

Mr. Bond: Nissan is in trouble right now actually.

Mr. Taylor: It is because our domestic automobiles are overpriced that they are able to compete so effectively here.

Mr. Bond: That is right.

Mr. Ashe: The best offshore one in Japan is probably Mercedes.

Mr. Bond: The effect of the voluntary restraints too was to force the Japanese auto manufacturers to move upscale. You will notice that a lot of the Japanese cars now are not cheap; they are quite expensive. There are a number of luxury sedans on the market such as Maxima and other Toyota products and a lot of Japanese sports cars. They have moved upscale. Upscale cars are not as price-sensitive either; that is another reason why the Japanese are not likely to be that effective by the appreciation of the yen.

It is going to be interesting to examine whether the exchange rate will remain at the 72-cent level. I understand now it is beginning to move up in part as a reflection of Japanese capital investment that is moving into Canada and demand for government bonds. It has been predicted this year that Japan will buy \$5 billion worth of Canadian government bonds, which is a significant rise over last year when I believe they bought about \$2.9 million.

The effect of Japanese companies buying Canadian dollars is to increase the exchange rate, which again affects Ontario's competitive position, as they point out in the document.

Mr. Mackenzie: Do they win both ways in that kind of situation, affecting our competitive position and at the same time securing a toehold in the market and the ability to draw the benefits of that investment here?

Mr. Bond: That is perhaps a question we could ask Treasury. I am not prepered at this moment to answer that. I would have to think about that one.

I mentioned before the link between the resource sector and the Canadian economy, the fact that Canada is considered by most countries to be a primary resource industries country. Low raw material prices have a downward pressure on the exchange rate of the Canadian dollar. Weak commodity prices keep the

exchange rate low. If commodity prices strengthen then the Canadian dollar will probably also strengthen. If oil prices strengthen then the Canadian dollar will likely strengthen.

The outlook for northern Ontario: There is a reference on page 4 that says: "Parts of Ontario or its economy have experienced adverse effects from the generally low commodity prices. For example, northern Ontario is an important exception to the overall strength in the province's economic performance."

It would be interesting to find out if Treasury has done any specific forecasting for northern Ontario. It might also be interesting to know if they have prepared a list of plant shutdowns or expected plant shutdowns in that area, given the low commodity prices.

Mr. Mackenzie: That is where my question about whether they have done any cost studies of various sectors comes into it. We have seen an early, heavy and continuing slowdown, although at a lesser rate. There is not much production left in some of our northern Ontario mines, other than gold, I guess.

Also, we are now seeing the forest industry suffering cutbacks for a variety of reasons. We probably cannot protect ourselves in the forest industry in terms of our need to export.

I am not sure the same thing applies in terms of some of the mining industry. That is why I asked specifically whether we had ever done any cost analyses of the iron ore situation.

Mr. Chairman: Perhaps your earlier request and Mr. Bond's suggested request could be coupled together in a response from Treasury.

Mr. Mackenzie: The only reason you raised that is that it is pretty obvious to me--it certainly is to most northern members--that you are going to have to take a look at the north as a special case, given the effects of the layoffs up there, which in many cases are even greater than they are down here. How do you start responding? You either develop some alternative up there or you take a look at what we can do internally.

Mr. Bond: On the top of page 34, they make the point that "iron ore mines will continue to face difficulties, reflecting the high operating costs of Ontario mines and limited demand in downstream steel markets." This could be further exacerbated if the US steel industry is successful in getting protectionist measures through Congress.

Mr. Mackenzie: I suspect once again that is part and parcel of the argument that was used to beat the last round in the steel industry, when they were able to point out that it was in effect \$1.25--it is now up to \$1.29, they told us when we were last in Washington--we are paying in terms of iron ore, machinery and steel-related products as against the \$1 worth of finished steel we are selling.

That argument, in the last round of "protectionist sentiment," is what won the day. I have always wondered why we do not use the same kind of argument. I recognize we are not as strong, but perhaps it is time we started threatening a bit.

Mr. Chairman: In so far as trade negotiations are concerned, there are a lot of threats going around these days.

Mr. Mackenzie: I do not think we have very much to threaten with at the moment.

Mr. Chairman: No.

Mr. Taylor: (Inaudible) smarter, we will shut them down.

Mr. Bond: Perhaps we can put that as a recommendation.

Mr. Chairman: Okay. Is there anything else on northern Ontario?

Mr. Bond: The forestry sector; page 34 again: "Forestry output is expected to improve steadily, reflecting strength in the downstream wood products and pulp and paper industries."

We have mentioned this before. It is based on the assumption that demand and prices for pulp and paper are increasing again and that demand in the US market is giving strong impetus to Canadian production and exports of lumber.

Mr. Mackenzie: Yet every time they want to threaten us, we get the argument that it is now possible to purchase so much cheaper the new wood supplies now being grown in most of the southern and south-central states, the Sunbelt states.

It always seems to me there is a little bit of a counterargument running through all of that. How much of a threat is this newly developed wood industry in the southern US? That is one of the things that is used on us all of the time. Is it less of a threat than we are sometimes led to believe, which is what you would assume out of this, if they say our exports should continue strong? I sometimes wonder who is telling us the truth in some of these arguments.

10:50

Mr. Chairman: I think our own pulp industry has expressed some concern about competition for softwoods from Brazil.

Mr. Mackenzie: They might as well. They have mentioned Alabama and some of the southern US states all along, but there is probably now the additional threat from countries such as Brazil, where there has been a substantial increase in production. It is probably unfortunate in many world terms--

Mr. Chairman: Apparently a higher quality too. There is not much we can do about it.

Mr. Mackenzie: If that threat that has been there for a number of years and implied is really valid, you have to wonder where they came up with the assumption that we are going to see this continued strong ability to export and strong growth.

Mr. Chairman: On the other hand, we must not forget that they are not talking about an extended period of time. This whole review is talking about a maximum of four years.

Mr. Bond: Yes, four years to 1990.

Mr. Haggerty: I raised that question with Dr. Purchase on the matter of the unemployment rates by region. I drew to his attention the serious unemployment in northern Ontario, and in reply he said:

"We have not forecast the future in terms of regional employment rates. That is a very difficult thing to do, mainly because there is so much mobility and partly because we do not have enough numbers to do a rigorous job. If we did it, everyone would be deeply disappointed in our results; they would not find them very satisfactory on the whole. I do not think it would be healthy."

I am little bit concerned about that comment. You would have to go back to the question about the flattening out of the economy in northern Ontario. It bothered me when he said, "I do not think it would be healthy" to get into details about the employment situation and the slowdown in the industries in northern Ontario.

It does define it on page 4, as David says; the northeast is 14 per cent, the northwest is 10 per cent and so on in different regions. Then you have the overall picture for Ontario, which makes it look somewhat healthier, but when you look particularly in northern Ontario, there have to be some answers someplace along the line.

He said, "We do have some programs," but are they going to get back into the area to produce the jobs that are required in northern Ontario, particularly in the mining industry and the pulp and paper industries? If they are not getting a bigger share of the market, where is it going? Who is capturing it?

Mr. Taylor: Government is the biggest growth industry; it uses a lot of paper--

Mr. Haggerty: Around here that is true; I agree with you on that one.

Mr. Chairman: I guess what we are hearing in that answer is that there may be programs there. Your question was asking to what extent. Your assessment was that it is going down. That is the question we are asking now--

Mr. Haggerty: I want to come back to the point about unemployment. That is my question. We were talking about demographic movement of people. It goes on to say the unemployment rate is around 6.7 per cent; have you divided northern Ontario from southern Ontario? He said the overall picture seemed to be healthy in a sense, and we can live with a 6.7 per cent, as they indicated it would drop to that point, but when you look at the economic conditions in northern Ontario, if unemployment is going to 6.7 per cent in Ontario, you wonder whether it is going to be 7.6 per cent if there is no movement in job creation in northern Ontario.

Mr. Chairman: All right. In view of the answer we did receive, and I appreciate you bringing that back to our attention, what more is it that we should be asking the Treasury for, if anything? Or are we all together in facing this problem? We know what the problem is, I guess, in a way.

Mr. Mackenzie: Are you talking about the pulp and paper?

Mr. Chairman: No. I think the question was concerning unemployment, and the answer seemed to be--

Mr. Haggerty: When you pursued it a little further and when you asked for things, he came up with some reasons for it. He summed it up by saying, "I do not think it would be healthy to get into this area." You never had time to get into what you were after in more detail.

Mr. Chairman: I presume he is saying that the economy would not sound healthy as opposed to it not being healthy to investigate.

Mr. Haggerty: He said, "We are not forecasting the future in terms of regional employment rates," but then he said, "I do not think it would be healthy to get into this area."

Mr. Bond: Some of the advantages Ontario's forest industry has over that of the United States is that the products are quite different. In the case of Canadian species, such as ponderosa pine, some softwoods and hardwoods, cedar, we have a quality advantage and a greater production capacity than the Americans have. We have advantages but we are faced with possible protectionism on the part of the United States.

Mr. Mackenzie: They seem to imply that our access to the US market is because of a better situation in terms of Scandinavia. I know that has been the usual comparison over the years in the wood industry. It is my perception that we have heard a hell of a lot in the past few years about the threat from the southern US, Brazil and so on. Which is the threat and which one are they taking into consideration or are they taking both into consideration?

Mr. Chairman: You have added, David, at the bottom of page 2 the impact of plant shutdown on one-industry towns. I guess that is because we as a committee have indicated we wish to include that in our concerns. There is nothing specific in the reference here.

Mr. Bond: There is no reference to it.

Mr. Chairman: Is it appropriate now to look at that point?

Mr. Bond: We could throw it out for discussion in view of some of the points we have made on the resource industry and the difficulties faced in the north. It seems the most sensitive industries, the primary resource industries, are located in the north. Whereas manufacturing is in a fairly healthy condition, the primary resource industry is suffering. Layoffs have had a tremendous effect at Falconbridge and its affiliates such as Kidd Creek Mine, Inco and other pulp and paper producers in the north. Mr. Mackenzie could probably address that.

Mr. Mackenzie: The reason is fairly obvious. Other than service industries or tourism, which is really very small in terms of the possibilities for employment in the north, the problem has been that we are nothing but a resource extraction operation in all of northern Ontario. The question is whether or not it is viable? One of the things we have to look at is whether or not any of the processing and finishing can be done up there. Without it, I do not think we will ever resolve the argument we have cyclically about every two or three years; it seems to run nonstop in this parliament.

Mr. Haggerty: Sections 13 and 14 of the Mining Act give them an exemption so they can do their refining offshore. I believe there is legislation to that effect, is there not?

Mr. Mackenzie: That is only one of the components. It is difficult in terms of transportation, etc. I recognize all of the arguments, but unless somebody can find a way to broaden the base to more than just resource extraction, then I doubt we will resolve the problem. I am not sure how much creative thinking has been put into doing more than just trying to establish a goat herd or some god-damned thing.

11:00

Mr. Chairman: That is something we have already instructed ourselves to bear in mind as we progress on all these talks.

Do you want to talk about agriculture?

Mr. Bond: I could talk about agriculture. The reference is on pages 33 and 34. The outlook for Ontario's relatively diversified agricultural sector is for real output growth of about 1.5 per cent, according to the review. Then they go into different sectors. They do mention that further industry rationalization is expected in the tobacco sector.

The forecast for corn, wheat, and to a lesser extent soybeans, is poor because of the impact of lower prices caused by the US Food Security Act of 1985.

Mr. Mackenzie: There is something I would like to know here, and I have no knowledge in the agricultural area at all, as much as it always fascinates me. When I drive around Ontario, I see one hell of a lot of corn growing in southern Ontario. If those are the three products that are under the most fire, what percentage of the total equation in terms of agriculture do they represent? Is it loaded properly or is it not loaded properly? If we are in real trouble in corn, does that mean more than the suggested stabilization in hogs or something else?

Mr. Haggerty: No. It is cheaper feed going to the producer. In the meat industry, such as hogs and beef, it is a benefit to them there.

Mr. Mackenzie: If your colleague Mr. McGuigan is right, he is the one guy who shot that down by pointing out that the feed and grain programs in the United States give them much more of a subsidy than we get up here.

Mr. Haggerty: That is correct.

Mr. Mackenzie: They already have the advantage with their surplus of corn as well.

Mr. Haggerty: They pumped \$20 billion for a period of three years to subsidize the farming sector in the United States. We have to compete with it on the market.

Mr. Chairman: Do you mean \$20 billion a year?

Mr. Haggerty: Over a period of three years.

Mr. Chairman: I understand it is more like \$70 billion in three years.

Mr. Haggerty: About \$20 billion or \$25 billion.

Mr. Taylor: It is over a period of five years, the 1985 bill. It is actually something over \$20 billion a year.

Mr. Chairman: Our federal government, of course, has jumped on the bandwagon this week too in that regard.

Mr. Mackenzie: I do not know if it is a valid question or not, but I would like to know the downside suggestions here, if they are accurate, how

they compare in terms of dollars and potential against the more stable or upside areas to give us a better idea. I am presuming that if they have done a reasonable assessment in this document, they have taken that into consideration. There is nothing here that really indicates it. They just reported the up and down side. I guess it is a balance sheet I am looking for in terms of assessment.

Mr. Chairman: It is something we can ask about.

Mr. Bond: Another significant point I thought they made in the agricultural sector was that farmers' difficulties in servicing debts will ease somewhat as a result of declining interest rates with government programs and, in many cases, lower levels of debt. Again, they are assuming interest rates will decline. You will find that a lot of their forecasts rest on other assumptions they have made so that if one does not materialize, then the others are not likely to.

Mr. Haggerty: Usually, the interest rates decline about December, January and February, but as soon as the farmer gets into the spring farming season, the interest rates go up. When they get the crop off in the fall, there is a period where they go down in the summer months and then up in the fall when they are caught in the squeeze. That is one of the reasons it hurts the farmer. He has to borrow money to put in the cash crop and then wait six months to take it off.

Mr. Chairman: Is there another point?

Mr. Bond: No. I will leave that unless there are other points the members would like to make.

Mr. Chairman: Does that leave only alternate scenarios, either those proposed or others?

Ms. Cotton: On that point, the possible alternative economic outlook, the reason that was included was we felt the committee would be interested in inviting witnesses to give different economic forecasts, which was exactly what Mr. Haggerty raised at the beginning of this session. That is what that point was about. Perhaps we could bring to the next committee meeting a list of possible witnesses you might want to hear to give different forecasts and alternative views from the Treasurer's report.

Mr. Chairman: I think we have a list here that we can perhaps deal with in a minute, but there are alternative scenarios that are in the review.

Mr. Bond: In terms of the alternative scenarios in the review, you will notice that on page 5, where they are looking at the key indicators for the United States economy, they make the point that "despite the stimulus from lower oil prices and falling interest rates, the US economy is expected to remain sluggish."

Then if you look at their alternative scenarios on page 40, the worst case scenario is--they only give two on lower US growth--scenario one, where again they assume lower US growth. I would like to make the point that even in their worst case scenario, they do not assume there will be an increase in US protectionism.

Mr. Ashe: We sure should see where they get all that optimism.

Mr. Bond: Is that a factor in that scenario at all?

Mr. Ashe: It says, "In this scenario, it is assumed that the United States does not adopt new protectionist measures." That is in the alternative scenario to number one.

Mr. Mackenzie: It is called flying on a wing and a prayer.

Mr. Ashe: That is a prayer?

Mr. Bond: The impact on the Ontario economy is also outlined on page 41: "Slower growth in the US would, in turn, induce slower growth in the Ontario economy over the medium term. Real growth in Ontario would average 2.2 per cent annually between 1988 and 1990, down from 3.1 per cent in the base case."

Mr. Chairman: I think back to when Dr. Purchase appeared before the select committee on economic affairs a year and a half ago. There was certainly an awareness of problems and, I would imagine, a fairly detailed ongoing monitoring of the situation in the United States. I think they can address that. It may be that they will be indicating to us that they felt constrained in trying to put this review together not to get what was happening in other governments and other levels of government. I think we have got to ask them that.

Mr. Bond: They are assuming there will be sluggish or slower United States growth and they do make the point that it would directly reduce export growth, which, in turn, will have an adverse multiplier effect on US demand and consumption. Business investment would also be adversely affected as a result of both weaker domestic demand and exports. They do try to plough all the factors that they dealt with earlier in the paper into these scenarios, but I think there is a good deal of oversimplification in them and it would be worthwhile if Treasury fleshed these out for us. I am sure that it is perfectly understandable to the people who wrote the paper, but perhaps, for those of us who are reading it and trying to understand it, we could be assisted by further details and other explanations on these scenarios.

Mr. Haggerty: One of the things I had difficulties with was in looking at the 1988 and 1990 Ontario economy and alternative scenarios when they talk about job creation and the 1990 unemployment rate--a projection of 5.5 per cent. When you go back over the number of years, the number of industries that have been phased out, shut down, plant shutdowns and closures etc., there have been a number of people who have been unemployed. Some of them have gone on what they call early pension at the age of 55 and have given up hopes of finding a new job.

When they take their figures from unemployment insurance, I do not know whether they include whether a person who is on pension is unemployable--maybe at the age of 65 or something like that. I often think that these numbers are misleading to the public. It really does not show the true picture of the unemployed out there.

11:10

They say the average job creation is 103,000, but they lose 1,200 at Goodyear or through layoffs at Inco where about 12,000 employees lost their jobs in that sector of Inco. It was about that number. The numbers still drop every year at Falconbridge, and yet we always seem to manage to say our job

creation program has created so many new jobs, but they do not tell you about those people who are on fixed pensions, who are really considered unemployable.

Mr. Chairman: I guess that is a statistical problem and it is one that politicians play with on both sides.

Mr. Haggerty: That is what I am saying.

To go back to my area in the Niagara region, they say in the Niagara region unemployment is 6.7 per cent, but in Welland it is about 16 per cent and in Port Colborne it is about 18 per cent. You know the numbers are there. They say, "We have created new jobs," but where? The jobs are not in those areas. Another community is penalized for that reason, because it may be grouped into the Niagara region, which may include Hamilton and Brantford. This is how they bury the numbers there. Bob, you know that in Hamilton.

Mr. Mackenzie: There are an awful lot of early retirements.

Mr. Haggerty: There are early retirements and these people are not considered to be unemployed.

Mr. Chairman: I do not know whether the committee wants Treasury to address that, because that is something we should be aware of.

Mr. Haggerty: I think these figures are misleading. They do not show the true picture.

Mr. Chairman: I think when we are talking about alternative scenarios, what is important about these figures is the comparison, base case versus low growth and base case versus high growth.

Anything else you want to say by way of dissection?

Mr. Bond: The committee might also wish to look at the whole phenomenon of the growth in the service industry and the decline of manufacturing. It is almost becoming a post-manufacturing society and there is a rise of the service industry with relatively low-paying jobs.

Mr. Haggerty: Part-time jobs.

Mr. Bond: A lot of part-time jobs.

Mr. Haggerty: The biggest percentage of the jobs are probably part-time jobs which are really not included in the statistics of those persons who are unemployed.

Mr. Chairman: Again, that creates a grey area on unemployment statistics. Mr. Bond is trying to suggest that we might want to look at that as a factor in some employment creation.

Mr. Mackenzie: It has tremendous applications in budgetary terms as well. If the growth continues in the service sector, one hell of a lot of that is public, not private. Anything you do to affect that in terms of restraints, if that is the approach in the public sector, has a direct influence on the job deal. On the other hand, if you are going to promote it, it has implications in terms of the budget and what you are putting into various industries that are really service industries, everything from health to you name it. The question is a valid one. There are implications on both sides of this issue which are pretty substantial.

Mr. Bond: The tourism industry alone represents \$8.2 billion in the province.

Several other factors are contributing to the expansion of the service sector. The review lists the information age, the growing complexity of the economy and the need for financial, legal, accounting, advertising, computer and other specialized services.

Interjections.

Mr. Chairman: Okay, I think we have some--

Mr. Mackenzie: --adjust this.

Mr. Chairman: Is that it? Thank you very much, Mr. Bond. It has raised a lot of questions and helps us a lot in understanding this document some more.

I propose now to raise with the committee some matters that I indicated at nine o'clock we would be discussing yesterday when the staff, Mr. McFadden and I met to go over some of the ideas of how we would deal with this.

Perhaps the list could be distributed now. This is a list of organizations and companies--I do not think there are any private individuals but organizations basically--that were involved in the consultation process prior to the 1985 and 1986 budgets.

The check marks indicate organizations that the office of the Treasurer feels we might want to approach to speak with us again. Just based on their experience, this tends to be a flowing list. Some of the names on this list will have been relevant to the 1985 budget and perhaps not 1986. There will be other names that some of you will feel are relevant to a 1987 budget that perhaps were not relevant to an 1985 and 1986 budget. That is the way it should be rather than to constantly go back to the same organizations for one's ideas.

I suggest the committee should direct us to act on a presumption that we are going to have, perhaps in the period from late February through to early April, a period in which we can sit daily, and that we address our thoughts to having these organizations appear before us during that time. We can make some decisions today, perhaps either make some actual decisions or ask the subcommittee to meet and make final decisions, with regard to how we would arrange to suggest to these organizations and others that they prepare briefs.

It may be the case that we would want written briefs from which a subcommittee could choose to have oral hearings. There may be some written briefs we could simply take and use without the oral hearings. It may be self-evident what the position is that an organization wishes to put forward.

Do we want to put an ad in the paper? If we do, how are we going to word it? The meeting that we held yesterday came up with the concept that perhaps we would try to get across to the public a sense of targeting, so that if we are concerned about one particular area as to what we want to see happening rather than to suddenly find ourselves--what was the example we were using yesterday--

Mr. Bond: Petroleum associations.

Mr. Chairman: Okay, petroleum associations. We were looking at that area.

11:20

Mr. Haggerty: I question some of these check marks. I think there are other important areas we should be looking at.

Mr. Chairman: I am sure there are, the check marks are simply--

Mr. Haggerty: The Ontario Flue-Cured Tobacco Growers' Marketing Board.

Mr. Ashe: You know what they are going to say.

Mr. Haggerty: Yes, but of course it is the consumer in this area who is not buying it. I do not think that is going to really give us any input into it. You have the Ontario Good Roads Association--you can get those reports at their annual meeting--but then you omit the Ontario Road Builders Association. Over the past years it has sent documents to members.

Mr. Chairman: Nobody is suggesting we do that.

Mr. Haggerty: No. I just draw that to your attention.

Mr. Chairman: I am not even quite certain what the check marks are really supposed to mean. Do they mean merely the organizations that have contacted the Treasury? Mr. O'Riordan, perhaps you can help us on that.

Mr. O'Riordan: First of all, I was not aware that the check-marked list was going to be distributed. I had explained to the clerk of the committee, this is very much an impressionistic exercise that we went through. Our experience in the past two prebudget consultations indicated to us that for various reasons, these are key groups; key in terms of their participation in the economy, their concerns about certain taxation policies or in terms of giving economic analysis.

It is by no means an all-inclusive list. The clerk merely asked me if I could go through that exercise, if indeed the committee wanted, because of time constraints, to limit the amount of consultation it had to do. All of those groups are important are far as we were concerned and we got input from them all.

I would say the Treasurer met with approximately 70 per cent of the people on the list. We received written briefs from the others and either responded in detail or whatever, depending on the extent of the brief. Sometimes, again because of time constraints, it was just not possible to meet with all of the groups. It is really an impressionistic thing.

Mr. Haggerty is quite correct. There are going to be omissions. There are going to be others for the 1987 consultation process that you will think are much more important. I would not take the check marks as any sort of absolute or scientific exercise by any means. It was more to just aid you if you felt you had to try to limit the consultation process because of time constraints.

Mr. Chairman: Thank you very much. We appreciate your saying that. I do not think it merits any criticism, frankly, one way or the other, as to

whether or not something is checked. At this moment, we have to do our own thinking on this.

Mr. Ashe: A clarification, if I may. I am not going to comment. If I can just clarify something.

Mr. Chairman: Yes.

Mr. Ashe: From what you said before, Mr. Chairman, you are anticipating the committee will have about six weeks.

Mr. Chairman: Up to, yes.

Mr. Ashe: Up to six weeks. We always have that in the back of our minds as to the program that we are going to devise. Just counting here, there are 30 tick marks. I appreciate and accept the advice in that regard, but these have been valuable input groups and we add from there, I would think.

Mr. Chairman: Yes.

Mr. O'Riordan: I think that is a completely correct analysis.

Mr. Mackenzie: In terms of the list--and not necessarily criticizing--if we were taking a look at whatever we are doing in terms of the budget and anybody who should be appearing before us, if we have six weeks and the hots do not win out, then I would think there are at least five obvious groups that I would have given a lot more priority than a lot of these.

That is not meant as a criticism, but one of them would be the United Senior Citizens of Ontario Inc., which has become a very important lobby group on behalf of a major group in our society. There is the National Anti-Poverty Organization, if it is still here and I think it is. I do not see at least three of the labour groups mentioned; two of them public sector, the Canadian Union of Public Employees and the Ontario Public Service Employees Union, who are major players in anything we do in Ontario. The other one is the Canadian Auto Workers, who have a major stake in terms of a lot of the decisions we are talking about in the budget and the auto sector. I think those five are absolute musts.

Mr. Chairman: This is a valid reason we have this as an open committee for open hearings for this sort of thing. First of all, let us formulate a basic policy as to how we are going to approach this. I was suggesting we do that during that period. In the time leading up to that, which would be the first six weeks of 1987, presumably we will have only Thursday mornings. In that period we could invite generalists, such as the Economic Council of Canada, from which I think we should hear, and a few others.

Mr. Haggerty: Ontario Hydro. They establish our lending rates, you know.

Mr. Chairman: Yes. I see what you are saying. We could invite them in for a specific--

Mr. Haggerty: Look at the Non-Smokers' Rights Association, just as an example. There was a private act passed here in committee and the ministry is now looking at moving in that direction for other employees throughout Ontario. Probably legislation is coming forward in that area.

Mr. Chairman: Yes, all right. I am suggesting to the committee we do that. We make those specific invitations. We approach certain others and we can perhaps sit down and go through this list and add to it some of the names that Mr. Haggerty and Mr. Mackenzie have indicated. We can ask these groups to prepare for something to occur in February or March. We can ask them to get working at it now. We can place an advertisement in the paper, which would ask for a specific concern to be addressed as opposed to some sort of a generalized "We want lower taxes" or something of that nature, which I do not think the committee wants to hear a lot of.

Mr. Mackenzie: You have to try to eliminate the oral presentations we have had and make it a commitment, if they are interested enough, to do a written brief to us.

Mr. Chairman: Yes, to have a written brief first. Then perhaps we could have a subcommittee decide which of the written briefs we want to have follow-up on. Does that generally make sense?

Mr. Taylor: Are we working from this list?

Mr. Chairman: No. That is simply an example.

Mr. Taylor: In other words, we are not considering this at all?

Mr. Chairman: We are not bound by that list.

Mr. Taylor: I am not saying we are bound by it. I was trying to get at whether we were using this list as a basis for discussion currently. I see the list is entitled "Participants in the 1985-86 Ontario Prebudget Consultation Process." Is that relevant to our current deliberations?

Mr. Mackenzie: I think it is.

Mr. Taylor: Is it?

Mr. Ashe: These are the organizations that, either by invitation or on their own volition, have thought it important enough to be involved in the consultation process in the last two budget years. Presumably the majority of these will also have something to say for this year. If I understood it, the purpose of the tick mark--in a cross-section sense those 30 tick marks, if you had to pick, and I did not count how many there are in total; there are probably 80 or whatever--is that the 30 were the most relevant as a starting point. Then we add to or we cull from the 30.

Mr. Taylor: All right. Based on that, how was this list arrived at in the first place?

Mr. Chairman: This list?

Mr. Taylor: Yes. I perceive the response that I have received to indicate there is a list of persons and organizations in Ontario who have expressed an interest in the past number of years in the budgetary process and that list is the one we have before us today. Seemingly, then, future deliberations are going to be influenced in some way by the persons who have already indicated their interest in the process. Therefore, the committee may be inviting persons on that list who have not been fully entertained or listened to in the past.

Mr. Chairman: I understand.

11:30

Mr. Taylor: The point I am trying to make is that if we are not careful we may be constrained or confined in some way to a shopping list of participants that may not be all-inclusive enough.

Mr. Chairman, you raised a question as to whether or not we should advertise. I am assuming that someone has concluded we should not advertise.

Mr. Chairman: Oh, no.

Mr. Taylor: The discussion was flowing in that direction. As I say, I am concerned that we are going to be constrained in some way to a list which may or may not be fully representative of the interested people of Ontario in terms of a budgetary process. I suspect it may not be all-inclusive and further public participation from other groups or persons may be desirable. It might even be a breath of fresh air. You know this thing may become incestuous after a number of years.

Mr. Chairman: I am sorry I even handed you the list if you are going to feel constrained by it. We have asked Treasury for a list basically so we would know what we are dealing with and how many groups we are dealing with. We can ignore the list. We can place advertisements and merely have oral hearings.

Mr. O'Riordan: If I could comment on that.

Mr. Mackenzie: There is nothing wrong with the list. It just shows some obvious shortcomings. I see it as a useful document.

Mr. O'Riordan: I would just say in terms of the development of the list, one of the first things the Treasurer did when he came into office was to inquire as to who had been involved in previous prebudget consultations and Treasury provided a list of organizations that had been involved in the consultation process with his predecessors. We began with that list. We then took a look at that in the minister's office and made some additions and then invited participation by various groups.

At the same time there are also groups that on their own volition wrote in, either requested meetings or sent in written briefs. In the 1986 process we added some specific groups. For instance, you will see the school of public administration of Carleton University. They were added on because in the 1986 process we are looking for specific comments on the Treasurer's 1985 budget reform paper. We wanted to know what various groups thought about that. They were asked to comment on that, for instance, because they had particular expertise in that area. There were also other groups in the 1986 process who were asked to provide advice on specific issues or things of interest to the Treasurer. The Toronto Stock Exchange made a presentation on specific issues relating to stock savings plans and employee share ownership, that kind of thing.

It is a compilation. I agree there are some groups we could have added. For instance, of the five groups Mr. Mackenzie mentioned, I think two were invited to participate and did not. The list is very much a mixture. People should not feel constrained by it. It is for your information.

Mr. Chairman: Mr. Bond says we know what that is like.

Mr. Haggerty: Maybe the best thing to do is to let the members of the committee come back and bring in about six or seven key issues that they think is important and go from there with it.

Mr. Chairman: Key issues.

Mr. Haggerty: There are areas we should be tapping that are not even mentioned here. We have gone through the area of takeovers that we have not yet completed; that has quite a bearing upon which direction the economy is going to go and we do not know that until that is finalized.

I look at the Ontario Mining Association. We know what effect that may have. With the wisdom that is there, they may tell us how to improve it in northern Ontario where the problem is.

I look at the Ontario grape growers. They have been before Treasury. They usually come out well when they go there. They go in with nothing and come out with a bonus of \$10 million to \$12 million given to them and nobody knows what is done with the surplus stock.

Mr. Chairman: I am not sure what you are getting at, Mr. Haggerty. Are you suggesting that we not do anything?

Mr. Ashe: This developed in the Niagara Peninsula. We are stamping out all those grapes.

Mr. Haggerty: That is right. I would like to go that route, that each one of us presents something that is on his mind.

Mr. Chairman: Will each one of us present a list?

Mr. Haggerty: Yes, a list of six things you would like to appear before the committee that deals with fiscal and economic problems. Perhaps we can go from there. Then we can go down through here and take a look. Mr. Mackenzie is shaking his head no.

Mr. Mackenzie: No. I just think it is easier to take a look at what you have here, notice what you think are fairly obvious exceptions and add them to it. That is the easiest way for me to go.

Mr. O'Riordan: There are two parts to what the Treasury is trying to present to the committee. One is the flavour of what it takes to put together the budget. Then there is this document. These are the sorts of figures the Treasurer analyses in terms of where the budget should go and what should be in it.

The other very important part of the exercise is to hear from groups commenting on the figures and commenting on their own specific sector. That is extremely important in the process as well; so adjustments are made during that consultation process as we hear from various groups.

In terms of the list, if you did public advertising and got in various briefs, you might want to ensure you get input from the 30 checked-off groups because they would be very key to getting an understanding and a flavour for the kind of input the Treasurer himself is getting.

Mr. Chairman: I hear a consensus this should be the approach at this stage as opposed to taking Mr. Haggerty's suggesting that we all look for five or six areas of concern. That is an interesting concept, except I am not sure, if we came back next week, I would see 11 lists handed to me.

Mr. Haggerty: I mention that because I am looking at the players that are on this list. We are looking at the forecast of the crystal ball that has come from the Ministry of Treasury and Economics. There are other groups out there that give one a similar forecast.

Interjection.

Mr. Haggerty: No, but the Royal Bank is one that comes to mind. They usually come out with their forecast projections for the next year in the economy. They usually tell you areas where they see some improvement and other areas that are going to be flattened out. All I am saying is there are other groups out there dealing with forecasting all the time. I would like to hear from them.

Mr. Mackenzie: I do not deny it for a minute. The Royal Bank is going to have its influence regardless.

Mr. Haggerty: No, but there may be something there.

Mr. Chairman: This is your chance to avoid it. Just make sure it does not happen, Mr. Mackenzie.

Mr. Haggerty: We want to get in the Salomon Brothers or one of them from the US,

Mr. Chairman: I want to make it clear to Mr. Taylor that my own thought was we would be doing some advertising. I want to suggest to the committee that the advertising try to make it clear that we would like to hear about particular sectoral problems, or we would like to hear about a particular idea or plan, as opposed to--

Mr. Mackenzie: I think it should be directed specifically at what any groups that answer the ad think is important in terms of preparing a budget. You want to focus it a bit; otherwise you are going to have all kinds of economic discussion that is not going to be a hell of a lot of use to us when we have to focus a bit here in the short time we have.

Mr. Chairman: Is the committee happy with the concept of having a two-tiered system, that a written brief would come first and we would have a subcommittee decide who was going to be asked to do an oral brief?

11:40

Mr. Mackenzie: I would like to see them submit a written brief if they are going to appear, considering the time we have. How we assess who is going to appear is another matter which we can discuss later.

Mr. McFadden: Excuse me, I have to be in another committee. I am sorry.

Mr. Chairman: Yes, I realize that. Can we have a motion. Mr. McFadden, we are talking about the sort of thing you and I were talking about yesterday. At this time, it may be appropriate to have a motion to the effect

that we should advertise and, depending on what the mover wants, the motion could just talk about written briefs, as Mr. Mackenzie was saying,

Mr. Mackenzie: We should advertise and request a brief. The advertisement should give a little bit of direction in that it should be directed towards preparing for a budget. What are their comments in terms of a budget?

Mr. Haggerty: May I ask the witness from Treasury a question? This is sent out similarly to what we are going to do. You ask different ones to participate or send written views on the economy. Do you have a list of people, companies, corporations or financial institutions that have not appeared before the Treasurer when he has requested them to be present or submit something?

Mr. O'Riordan: I do not know if we have an exact list of that. There are very few.

Mr. Haggerty: Do you have some key ones which have not come forward over the past years?

Mr. O'Riordan: I do not know. I can check.

Mr. Haggerty: Could you check and see?

Mr. Mackenzie: I agree with the direction you are heading in, Mr. Chairman. I apologize, but I have about three calls which have to be made before 12 noon. That is why I am going to have to leave.

Mr. Chairman: All right. Can we assume that you have made a motion?

Mr. Mackenzie: I will move that we advertise, that we have to give a little direction to what we want and that we ask for written briefs.

Mr. Ashe: That is on the understanding that, based on those written briefs, a subcommittee may invite some of those in who are--

Mr. Mackenzie: You simply say we are asking for written briefs. We may follow through with requests for a further presentation. Leave that in our hands. Otherwise, we are never going to get through that.

Mr. Chairman: We may follow through for further presentation. That makes some sense.

Do you want to give us any deadline on that or would you like to leave it?

Mr. Mackenzie: I am open on that. You can put it in the motion if you want.

Mr. Haggerty: You have not actually decided when you are going to be sitting, have you?

Mr. Ashe: Yes, up to and including the--

Mr. Chairman: The clerk is suggesting that it be left to the chairman. Who knows what is happening at House leaders' meetings these days?

Mr. McFadden: I suggest that if we are going to start hearings by mid or late February, we should put a deadline at least for those by the first week in February. We have to sort through them all.

Mr. McFadden: Make a deadline by the end of--

Mr. Ashe: January 31 or something.

Mr. McFadden: You need to give people some notice before you ask them to come. It is not fair to give somebody three or four days' notice.

Mr. Chairman: With the present knowledge we have, January 31 makes sense. That motion is on the table. Any more discussion? All in favour? Opposed?

Motion agreed to.

Mr. Chairman: That leaves us with whether or not we are going to do some specific inviting as well.

Mr. Haggerty: Let us do as I suggested. I will give you a list.

Mr. Mackenzie: I am totally open as long as you consider the five names I gave you.

Mr. Haggerty: Even the ones that said no.

Mr. McFadden: I have a recommendation on what we do between now and the time the written briefs are in. We have made decisions on who might be invited orally. Let us invite certain groups to appear if they want to prior to that time. The Economic Council of Canada does ongoing work and it might be of some use to us in terms of the various questions Mr. Bond has already raised. Let us invite groups of that nature. For example, the C. D. Howe Institute and others might be able to get here in January and give us overviews rather than industry-specific briefs. That might be useful in terms of shedding some light on some of the points that have been made.

Mr. Taylor: And the banks.

Mr. Haggerty: The Royal Bank.

Mr. Chairman: The four groups that Mr. Bond has suggested are the Conference Board of Canada, the Economic Council of Canada, the C. D. Howe Institute and the Economic Council of Ontario.

Mr. Haggerty: That has disappeared.

Mr. Ashe: We used to have one of those.

Mr. McFadden: We will have to get the Treasurer of Ontario--

Mr. Chairman: We are frankly ordered to replace that council. We are that council now.

Mr. Bond: We should be hearing from ourselves then.

Mr. Chairman: We do that quite a bit. Perhaps I understand a consensus that we will invite these three groups to address us some time in

the first six weeks of 1987 and we will approach preparing a list. Perhaps we can have a subcommittee meeting to prepare a list and come back next week with that list of groups we will invite specifically to appear in February and March 1987. Does that make sense?

Mr. Ashe: May I throw out one other for consideration if you are looking for a fourth? I would suggest something in the securities field. There are many on this list that have been involved. I am not trying to pick one as a choice because I do not have one. It has Dominion Securities, McLeod Young Weir, Midland Doherty, Wood Gundy. Those are four that jumped out. I am sure there are others.

Mr. Bond: McLeod Young Weir has--

Mr. Ashe: It has a lot of expertise in this area and it is broadly based.

Mr. Chairman: You are suggesting we find someone from that group that might do some forecasting for us and Dave has that written down.

Mr. Haggerty: The reason I suggested Ontario Hydro was that it has some good forecasts too and covers a broad range, from population to growth.

Mr. Chairman: In that general a sense?

Mr. Haggerty: Oh, you want to believe it. I was going to suggest that if somebody wants to get back to research and find out the studies--the people--that were before the select committee on Hydro, there is some good information there.

Mr. Chairman: Perhaps you could leave it Mr. Bond to look into that.

Mr. Taylor: I would not leave out Hydro.

Mr. Chairman: There are a couple of other matters I want to you to fix your minds on. I realize we have worked hard today.

Mr. Ashe: We have?

Mr. Chairman: Sure we have. We were solving a lot of budget problems.

Mr. Ashe: We could write a budget right now.

Mr. Chairman: Within that period of time, up until the mid-winter break, we must not forget that we have set out for ourselves completing the corporate concentration matter. That matter is moving ahead at some speed as you probably all know. Mr. Bond is preparing a treatise which will be distributed to us eventually when it is finished. If it is all right with the committee, if there are some gaps in our scheduling between now and mid-February, we can spend a week or two working on that.

The other thing that is hitting the fan is Bill 116. The committee has made a decision that Bill 116 would be low priority and that seemed to be a consensus across the board. However, there are rumours afoot that there is imminent federal legislation coming down. When it does, the Minister of Financial Institutions (Mr. Kwinter) will be prepared and perhaps urging us to deal with Bill 116. I am simply informing the committee of that fact.

Mr. Haggerty: That is the financial--

Mr. Bond: The Ontario Loan and Trust Corporations Act.

Mr. Haggerty: That includes credit unions too, does it not?

Mr. Bond: No, it does not include credit unions. It is the omnibus bill that deals with reform of loan and trust corporations.

Mr. Ashe: As a matter of fact, it is even helpful to make sure that the two pieces of legislation are somewhat compatible, appreciating what you are saying, of course.

Mr. Chairman: That is the reason that it was put on a back burner. I am warning the committee that it will soon be back on the front burner and we may be facing some pressures to deal with it. Again, if we find during these intricacies some moments, perhaps we can start dealing with Bill 116 if we do not have other work between now and mid-February. Is that fair enough? Any other business today?

The committee adjourned at 11:50 a.m.

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Publication

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ECONOMIC AND FISCAL REVIEW

THURSDAY, DECEMBER 18, 1986



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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 18, 1986

The committee met at 9:13 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: We will begin. Dr. Purchase, welcome back to our committee. As the members are aware, we have gone through the review very thoroughly. Mr. Bond took us through it again last week with the point of raising some issues and questions with us. We forwarded that to you early this week. Perhaps you can give us some explanations at this time.

Dr. Purchase: The document I received was not always in the form of questions. For example, the first item--

Mr. Chairman: Is that the one about issues arising?

Dr. Purchase: Yes, issues arising.

Mr. Chairman: No, it is not. You are right

Dr. Purchase: The first item is "Examination of the possible impact of increased United States protectionism." When I was here last, one of the reasons we did not attempt to factor in anything on increased US protectionism was that we have no idea what form it might take. Everyone believes he knows what he means when he says "increased US protectionism," but it is another thing to try to quantify it. Do we mean that the United States would impose a surcharge on all imports into the United States, including those from Canada, or only those from Canada? Would things be exempted? Would they instead go to a system of quotas? Would those quotas apply only to certain products or would they apply to all products imported from all countries, or just those from Canada? Would increased protectionism take the form of some negotiation on exchange rates, for example? The Treasury has done a paper on the implications of exchange appreciation on the Canadian economy, which is available as a public document. We have already modelled those impacts.

Of all of the options available, we have typically not tried to define what the US might do in the way of policy decisions with respect to protectionism. I do not think one could leave it at that, incidentally. One should get started. The question is whether Canada would retaliate because clearly, there is substantial opportunity to retaliate against the US. We do, after all, run a current account deficit with the US. Notwithstanding that we have a trade account surplus, our overall account with the US is in deficit so there is a substantial possibility that we could retaliate.

My answer at this stage is that we are going to attempt to give you some idea of what would happen if our exports to the US fell, for whatever reason, by \$500 million or \$1 billion, some idea of what the impact on the provincial economy would be. My judgement is that unless you do a specific study with respect to US protectionism, the possible forms it could take, the likelihood

of each form and what Canada's response would be, it is not very material to budget-making in a single year.

Mr. Chairman: I think we basically expected that answer. We are not expecting you to put in every conceivable possibility. We are interested in gleaning from you your reactions to what seems to be the worst scenario. Even in your scenario of a low-growth American economy, you are not including protectionist measures.

Dr. Purchase: No, we are not. If our exports to the US were to fall by \$500 million, I believe the impact would be roughly the equivalent of one per cent lower US growth with no protectionism. That would reduce our real growth rate by about 0.3 percentage points. That will give you a kind of quantitative estimate. I am not sure where that takes us in the final analysis.

Miss Stephenson: What would be the average lag time between the real introduction of a protectionist measure and its imposition and effect on the Canadian economy? I am talking about one; I am not talking about an across-the-board thing. I seems to me it is of the order of a year to 18 months.

Dr. Purchase: Off the top of my head, I would say that is probably how long it would take to have an effect. It would depend whether the protectionist measure was a quantitative restriction, like a quota for example, or an imposition on the price. The price effect, I suspect, would take longer to work its way through.

Miss Stephenson: The processed-hog imposition, it seems to me, was a quota. Was it not introduced almost immediately?

Dr. Purchase: The hogs; no, it was a countervailing duty.

09:20

Miss Stephenson: But it was a fairly rapid imposition. The others, for some reason, and I do not know exactly why, do not seem to come into effect quite as rapidly as that one did.

Mr. Tylee: It depends a little on the industry. For industries in the resource sector, particularly agricultural ones, where there is a specific market and you are shipping to the market and suddenly the price goes up, you feel it, whereas if they are manufactured goods and you have contracts for a year and maybe it takes a year to staff up and make your employment decisions for the contracts you have, it is going to take a lot longer. It depends to some degree on the type of commodity we are dealing with.

Miss Stephenson: And the sector involved.

Mr. Tylee: Yes.

Miss Stephenson: So it would be rather difficult to determine for next year's budgetary activity the impact that an announced protectionist measure, whether or not it was across the board, would have within the next 12 months.

Dr. Purchase: We would certainly take a stab at it, as we usually do if we are asked, but often it is difficult to do it. In this case, we are mostly not talking about something we know is going to happen for sure, but

that we think might happen because everyone is talking about increased US protectionism. You can understand the difficulties of forecasting when we get into that. We have everyone saying: "I do not really think the government of the United States would do that. I think it would do this." We have no objective way of knowing or predicting for sure what the government of the US might do. We assume it will not do anything different from what it is already doing.

Miss Stephenson: Obviously, the government of the US does not have any way of predicting it either when it is--

Mr. Chairman: If we were down there, they would also say that no one particular branch is certain what is going to happen.

Miss Stephenson: Happen to the other one.

Mr. Chairman: Dr. Purchase, when you were before the committee before, you indicated that if there was a scenario, and if we wanted to put it to you and ask what the net effect was going to be in Ontario, you would have the facilities to do it and would be pleased to do it. I guess it is up to the committee to put a scenario to the ministry and ask it to come back with a prediction.

Mr. McFadden: Apropos of that, and I am glad you mentioned it, I think the problem we have with these figures is this: I understand what you are saying, that you cannot tell for sure what would be in the protectionist legislation, or what the subject would be should countervail action be successful. As I understand it, you are saying as well that you do not know how Ontario industry would react. There are a lot of ways you could react. You do not know what the customers in the US ultimately might do or what adjustments would be put in place by the marketplace itself to deal with it.

One of the things that struck me--you are not from this ministry--was that last year there was a lot of hue and cry and gnashing of teeth over a report put out by the Ministry of Industry, Trade and Technology which indicated that if a trade agreement was reached with the United States, 300,000 jobs could be sensitive or lost. That was without knowing the content of the agreement, since the agreement had never been negotiated, or any protections, adjustments or anything else that might be provided for. I assume the same rationale would apply to an agreement and that you would have the same problem estimating job loss or opportunities because who knows what is in the agreement at this stage? Would that be accurate? Would it apply both ways.

Dr. Purchase: That is why we have not--if we were told what the agreement would look like, we could obviously give a more accurate response about the impact of the agreement. Typically, the studies that have been done that I have seen on what is usually referred to as the impact of free trade with the US assume, for example, the immediate removal of all tariffs. They make assumptions about these things. To some degree, they also go on and make assumptions about the results they are going to get. It seems to me that often is so in the studies I have read. It is not surprising when you see some of the results because they seem to have been built into the various assumptions in the study.

At the Treasury, we have not produced such a document mainly because we are interested in knowing what a deal would look like before we make an estimate of its impact. I think it does work both ways. I come back to my main point. We do not try to predict what government policy will be other than that

it will continue to be what it is, which is a form of prediction but it is the safest form of prediction. I mean "safest"; I do not mean we are afraid of the political consequences or anything such as that, although they may be there. At this stage of the science, it is the most reliable prediction.

Miss Stephenson: It is an art form.

Dr. Purchase: It is. There are political scientists, some of whom I have spoken to recently--there is a company in the US that attempts to predict policy decisions by the government with a formal quantitative model. Many people do not even like the idea it might be possible to do that. However, so far we have not really attempted to try to predict. Of course, it could be counterproductive in the sense that it simply heightens fear and it is clearly in the American interest that there be a high level of fear in this country on the question of US protectionism.

Mr. McFadden: The chairman was asking about a specific study and you mentioned a specific thing could perhaps be looked at and considered. Mr. Chairman, I do not recall whether you got a copy of this in Washington, but I got a copy of the omnibus trade bill that has gone through the House of Representatives. It is quite specific about what they propose to do. Whether it ultimately will be enacted and go to the President and be signed into law is a question, although pressure is certainly building up to do something. Are you familiar with that bill?

Dr. Purchase: Yes.

Mr. McFadden: Would you be able to look at a bill such as that--let us say it was signed into law--and give us some idea of what you would project the impact to be? Obviously, there are so many caveats, as you mentioned, that it would be hard to know what the specific effects would be on specific industries and jobs, but it might be interesting, since that is one thing we know has passed Congress, to get some idea what impact that might have on Ontario; if not on jobs, then at least on the industries that would be impacted.

Dr. Purchase: Yes, I think we can--

Mr. Chairman: Mr. Bond had been suggesting a 10 per cent surcharge similar to the one President Nixon put on several years ago, but I think the bill, HR-4800, would be more significant. It would probably be more damaging too.

Dr. Purchase: We will take a look at legislation, whether it is Senate or House legislation, that you would like us to look at and attempt to do an impact study. I should point out that the Economic Council of Canada has done--

Mr. Chairman: You mentioned that.

Dr. Purchase: It has done an impact study. It imposed a tariff on all Canadian goods entering the United States with the exception of automobiles, which of course left out a very substantial part of the trading and a very substantial part of the impact on Ontario. We will take a look at what they did. They have also apparently promised to do regional impact studies some time next year, perhaps in the spring. I am not sure when those results will be available. We have been negotiating with the Department of

Finance to use a model it has that has been built by--I believe Professor Harris appeared before this committee and he has built--

Mr. Chairman: Yes.

Dr. Purchase: They have updated and expanded the data and improved the assumptions and so forth in his model at the Department of Finance, and three or four months ago promised that we could use it. It still is not working to anyone's satisfaction, so we have not been able to use it. When we can, we may be able to try some things on that model as well, and they may be producing some material. I will certainly undertake to do that. We will need a little time to answer this question, but I have no problems with attempting to answer it.

09:30

Mr. Chairman: I am sorry. You said you would need a little time?

Dr. Purchase: Yes. Incidentally, as a general point about that, with respect to some of the questions the committee had for me the last time I appeared, we have answers that will be tabled with the committee today, I am told. I have reserved some because I need more time to answer them. For example, the question that was put to me on the factors which lead financial institutions to agglomerate, if you like, in one community, Toronto, for example, deserves more effort than just simply no response. We are spending a little more time on that.

The question about forecasts of the labour force that go beyond 1990 deserves more time and more effort. For any questions like that, where we do not get back right away, it is because we think the questions are not trivial in the sense that all we have to do is go and look up a number and get it back to you. It does take some thought.

Mr. Chairman: We appreciate that. We have not had a great deal of time to prepare for today. Mr. Haggerty has a question.

Mr. Haggerty: Was your document on the economic and fiscal review prepared before the elections in the United States in November?

Dr. Purchase: Yes, it was.

Mr. Haggerty: Are you aware that Congress, apparently from the information I have gathered from reading articles, will apply US patent protection to imported goods coming into the US because of the concern about the pirating of technology, medicines, drugs and vaccines. They call it counterfeited goods. It costs the US \$25 billion a year in lost sales. It means about 700,000 jobs that are wiped out in the US. It amounts to about 15 per cent of their trade deficit. Are you aware of that movement in the United States and what impact it will have upon the Canadian economy, particularly on this province?

Dr. Purchase: Yes. The whole question of what they call intellectual property is a very high priority for the US in the Canada-US trade negotiations. Within that general category of intellectual property patents, and in particular pharmaceutical products, a major item for negotiation, as you know, is the federal legislation, which I believe has received second reading and is now in the committee dealing with the issue of patents.

We are aware of those things and we can tell you more about them if you wish. I have not come prepared to talk about the implications of changes in patent law or trademarks on any particular industry. There is a large number of industries to which they are relevant or material. In fact, in many cases, patents are the most important thing in the pharmaceutical industry.

Mr. Haggerty: So you have done some study in this area?

Dr. Purchase: We have.

Mr. Haggerty: As you have gone through the first stages, what impact will it have on Ontario? Will we see a slowdown in our economy when the US applies it? Apparently, it is going to be on their agenda when they discuss trade talks with European countries and with Japan, the forthcoming trade talks?

Dr. Purchase: We have not done a study of the overall impact of the strengthening of international law with respect to trademarks, copyright or patents and the impact on Ontario. Part of the American problem is not with countries like Canada. They do have a problem with us on patents for pharmaceutical products because of our existing law, but a number of US companies are having their goods counterfeited, particularly in southeast Asia where there is virtually no law with respect to these properties that exist. They are properties which can easily be counterfeited or can easily be copied.

The US sees its whole comparative advantage shifting out of goods production per se into more of a service sector, more things that relate to the production of knowledge and information and they need laws to protect the knowledge and information they produce. They say they need international law with respect to patents, copyright and trademarks; hence their interest, because they see themselves as this being where they compete best in the world in these things.

Mr. Haggerty: Is there any possibility that the counterfeiting could be done through the back door into Canada in the United States that may cause us some difficulties too?

Dr. Purchase: Yes. They are also concerned about the transshipment of goods coming through Canada. Again, you have to look at each of these things. You have to specify a specific industry. I do not think I can give you an answer in general about what the impact is on Canada of, let us say, a change in trade laws with respect to patents. That would be very difficult for me to do. I would have to go industry by industry and say in this industry it is extremely important and this is our position and this is how we would be affected by it.

Mr. Haggerty: You mentioned that legislation has passed second reading in Ottawa with regard to pharmaceutical goods. There has been some discussion that it would mean a loss of jobs in Canada.

Dr. Purchase: Yes. The discussion there relates in part to the issue that drug prices would go up. My own estimate is that they probably will go up. There are cost implications for provincial governments and for our government. I believe in Ontario we spend, subject to someone knowing the number, something like \$450 million per year on our drug benefit plan. It is a very big program. Working from memory, the stuff that I have seen suggests

that there will be substantial cost increases to that program as a result of the changes.

Mr. Haggerty: We have seen the impact of the countervail on forest products processed and manufactured in Canada, the effect it has on the industry, particularly in Ontario. If they may start to move in more of this area, then we will see it will have an impact. They could move in that area without us having someone in Washington to grasp what is going on down there, particularly if we can get some lead time for proper debate, I do not know how close it is. I think I did ask you whether you have a pipeline directly to Congress. Do you have a watchdog sitting in Washington to keep the ministry well informed of changes that may cause us some serious problems?

Dr. Purchase: We do receive the information from the embassy. I believe the Premier has indicated that it is a very high priority to get more timely information and to have a lot of Ontario contacts, if you like, in Washington and with Congress.

This is a serious issue. The whole question of protectionism and of policy changes relating to trade and a number of other issues, not only trade but obviously environmental issues in the United States, is an extremely important one on the agenda for this province. There is no question in my mind about that and about the need to focus more of our attention on the activities of the US Congress as well as the administration. There has always typically and historically been a strong and close connection with the government of Canada and the US administration. More recently, we have been reminded of how powerful the Congress is, notwithstanding how powerful the presidency is.

09:40

Therefore, more and more people are focusing on Congress and the legislators there and taking their role much more seriously and the need to talk to them and to have them understand the differences and similarities between the two countries and to put the Canadian case to them as well as can be done.

There is that recognition and there are some efforts being made, whereas the whole bilateral negotiation initiative is one that in a sense is trying to roll all of that into one big negotiation. There are many other things that have to be done and can be done in respect of attempting to put Canada's case to US legislators.

Recently, I believe for example that a number of senators visited Ottawa. I thought that was an excellent method, frankly, to have the US senators, those who are known to be sympathetic to Canada as well as those who are known to have specific trade problems with Canada, to invite them to our country and to talk to them directly.

Mr. Chairman: We have been encouraging that too at this level.

Mr. Haggerty: It is a good thing Texas has an open mind on it.

Mr. Chairman: Some of these questions are reminiscent of some questions Mr. McFadden was asking the Premier in Intergovernmental Affairs estimates. The answers were similar.

Members of the committee, I have just been handed exhibit 6. If you turn to page 1 of exhibit 6, you will see the guidelines Dr. Purchase is using in

answering his questions today. This is a memo which was given to him earlier in the week by Mr. Bond, based on our review of the economic and fiscal review paper.

Mr. Haggerty: I was looking at your forecast of the new jobs that you had projected. It was 176,000, was it?

Dr. Purchase: For this year.

Mr. Haggerty: That could be thrown right out the door if measures of this nature are taking place in the United States.

Mr. Chairman: The Economic Council of Canada apparently predicted if there was a 20 per cent surcharge on manufactured goods imported in the United States, our job loss would be 371,000 jobs.

Dr. Purchase: Yes. That was the Canada-wide impact. If the surcharge was applied beginning in 1987, but not on autos, then the Canada-wide impact by 1991 would be a loss of 371,000.

Mr. McFadden: Do you have a copy of that report or was that circulated?

Mr. Chairman: No. This was from some notes taken from Dr. Purchase's last appearance here, in which he pointed that out and said the main effects on Canada were that real GNP would be 4.3 per cent lower, job losses in the order of 371,000, with an unemployment rate two per cent higher than it would be without. That is based on a 20 per cent surcharge on manufactured goods, except for auto.

Mr. Haggerty: It is not a promising outlook on our economy if that scenario comes forward? No doubt if protectionism continues there, I think we ought to send three wise men down there now.

Mr. Chairman: We need more than three.

Mr. Haggerty: Some crystal gazing or star gazing.

Miss Stephenson: As you said, that does not even include the auto industry, which is our largest concern.

Mr. Haggerty: That is faltering right now too.

Dr. Purchase: One of the reasons they would have excluded the automobile industry is that it would have been a contravention of the auto pact.

Miss Stephenson: Yes, exactly.

Dr. Purchase: However, the pact can be terminated on one-year notice by the sides.

Miss Stephenson: I well remember that in 1976 there were loud noises from the third party in this province. In 1976, it was the second party. Pardon me, it was not the third party.

Mr. Haggerty: In 1986, the third parties are not here.

Mr. Chairman: That must have been horrible.

Miss Stephenson: They wanted us to reopen the auto pact because they felt that Canada was getting a raw deal.

Mr. Haggerty: That was the third party.

Miss Stephenson: In actual fact, we have done particularly well.

Mr. Ferraro: It really is insignificant. My recollection is that the first party never listened to anybody anyway.

Mr. Chairman: The first party went to the polls and get rid of the second party.

Mr. McFadden: The assumptions within the budget paper are, as I understand it, strongly predicated on a reasonably healthy auto sector--obviously, not a sick one--and I know what you have suggested is it is going to level out. There are a couple of things I want to ask about.

One is the mounting overcapacity. Questions are set out here about AMC, but AMC is not the only one. It just seems to be the one that looks like the biggest example of a large plant going in, built by a company that has mounting debts. In the long run, how viable will that plant be? Maybe somebody else will buy it, as somebody suggested last week. The only problem there is why would somebody buy further overcapacity unless they are about to close somewhere else, which will have an impact on some other community.

The question mark I have is about the mounting overcapacity. While in the short run there is some economic benefit in terms of investment for construction jobs, equipment suppliers, etc., when all these plants are up and running and that impact has disappeared in the previous years, what is the long-run effect in the auto sector going to be? That was point one. Do you prefer me to go on or do you want to stop there?

Dr. Purchase: Maybe you should go on.

Mr. McFadden: The second thing that I found out yesterday that was somewhat worrying is that the renovation and renewal of the Ste. Thérèse plant of General Motors apparently is creating some major difficulties in the United States. I have heard the United Auto Workers may be mounting a program to have the auto pact abrogated. They feel now they are cut off. They have no Canadian branch. They have no vested interest in maintaining any Canadian jobs. I found out yesterday that the UAW is considering lobbying the American government to have the auto pact abrogated in view of the major subsidy for the Ste. Thérèse plant and other things that have been happening here in terms of our special treatment of the Japanese and Korean auto manufacturers.

There is another proposal now being talked about regarding having any cars produced at the Ste. Thérèse plant subject to countervail, just those cars if they can identify them, so that any coming out of that particular plant working its way to the United States would be countervailable. They will seek to have that done.

I am not at all certain that any of the auto manufacturers are interested in having the auto pact abrogated. I am curious to know. Obviously, that is one of the scenarios. If the auto pact were abrogated, which it could

be within the period of a year, presumably that would have a major impact on the Ontario economy over a period of time.

I am curious to know whether you have been picking up any feedback with regard to feelings in Washington or elsewhere that would indicate that the Ste. Thérèse investment or other investments could be posing a fairly significant threat. Ste. Thérèse obviously is not in Ontario, but since we have the major portion of the auto industry, if things do sour in the auto sector, we are the biggest loser, whether Ste. Thérèse gets its plant or not.

09:50

Mr. Chairman: I think we are actually losing some production from Oshawa as a result of that. I am not sure. That is a searing question. Do you have some heavy sources inside the UAW?

Mr. McFadden: No. I picked it up from a couple of economists who were down in Washington. They were talking to some of the UAW people who said they were seriously considering starting a lobby because of the 30,000 jobs they had lost. They have just lost 30,000 jobs down there and they find up in Canada the Canadian government subsidizing a bunch of people. I think it is getting more serious, and I am curious to know what, if anything, we know about it.

Dr. Purchase: I will deal with the last question first.

Mr. McFadden: The easier party first.

Dr. Purchase: With Ste. Thérèse. .

I do not know any more than anyone else. I know only what I read about the speculation that the United States is concerned about that or about any other subsidies. I have no specialized information nor do I have access to any. The Ministry of Industry, Trade and Technology may have some specific views on this issue. One can see that it is a fairly high-profile decision, in the middle of the bilateral trade negotiations, to do this. On the other hand, there are plenty of substantial incentives given to automotive companies in the US.

Miss Stephenson: By individual states, not usually by the federal government.

Dr. Purchase: That is correct. None the less, there are subsidies of very significant amounts that are given. It is not as though only we in Canada subsidize and it happens nowhere else in the world.

I do not really know the answer on the question of whether the US would consider a countervail against a particular plant or whether it would wish to abrogate the auto pact. Ste. Thérèse obviously involves General Motors and General Motors is very much in favour of the auto pact. I really cannot speculate on that.

On the question of overcapacity, we have a fairly positive view, but I have said before this committee our view is not the only view out there. There are a number of people who are very concerned about it. I believe the issue revolves around whether the new Japanese automobile investment in North America represents an add-on to their imports, so that they will increase their market share as a result of the investment in North America. If that

happens, if General Motors or Ford is losing market share and the market is not growing that much more, they are going to have to shut down plants. If you believe that, there is overcapacity. If I were one of them, I would be quite concerned about the building of new capacity in the industry and wondering whether that meant I was going to lose market share as a result.

On the other hand, we have taken a more optimistic view of these things. We believe that to some degree, in a North American sense, the Japanese investment in North America is not going to be simply an add-on to their present imports, that to some degree their new North American production capacity will displace the Japanese capacity in Japan to some degree.

Part of the reason we believe this is that we take a look at the appreciation of the yen by some 40 per cent over a year. That would be the equivalent of the Canadian dollar going from 72 cents to \$1 in a year. You can imagine the competitive impact and the implications for Ontario of such a change. That sort of change has taken place with respect to the Japanese automobile manufacturers selling into the US market via imports; therefore, we are a little more optimistic on that ground.

The second point is Ontario's position within North America in the automobile industry. Once again, we look at ourselves vis-à-vis the US, with current exchange rates, labour rates and non-wage manufacturing costs, particularly health benefits and so forth, that are paid for publicly here, relative to the US. We think we are extremely competitive, as does General Motors, which is shutting down and rationalizing facilities. I do not think any of us likes to see this happen anywhere, but unfortunately they are shutting down facilities in Michigan and Ohio and at the same time expanding very dramatically in Ontario. We think that is a reflection of our relative competitive position.

On the question of overcapacity, there are those two points: We do not fully subscribe to the view that Japanese investment in North America is just an add-on to their import share, and we believe Ontario's position vis-à-vis the rest of North America looks fairly strong competitively. Of course, I am abstracting from any possible political intervention, which is always a possibility.

For those reasons, we are a little more optimistic. We are not saying that there are not big problems or that people are not focusing on one of the most critical issues of the Ontario economy. It is appropriate to focus on it at this time too, even when things are doing so well, to start thinking now about the future. Clearly, if the future is going to look anything like it has in Michigan, this could be a serious situation.

Part of this question relates to how each of the companies views a government subsidizing its competitors and subsidizing the added capacity that takes place. Clearly, they are concerned. They are concerned about subsidies being given to the Japanese. They are also concerned whether that added capacity which has been subsidized might take their market share; they do not know for sure, but they have to presume it might. That is their interest, and that is why they are concerned and in part why they are raising this very issue, because of the role of governments, both in Canada and the US, in the subsidies given to offshore producers.

I want to make one more point that I think is important. Because automobiles have been so important to the economic recovery from the 1982 recession in Ontario, and although they are not adding enormously to growth

right now in the short-term sense of growth, except on the investment side with the new plants, they are none the less maintaining a very high level of income and economic activity.

However, focusing on the future, the question we have to look at is, how dependent are we on automobiles? We know we were extremely dependent on them in the recovery. I suppose we might ask other questions: Are we becoming excessively dependent? How do we diversify? Can we diversify? We have to ask all the same questions they would typically ask in a mining town, let us say. Is it a good thing to have a diversity of producers? Even if you cannot diversify, not necessarily outside the automobile industry, do you want to to diversify the producers in the industry? Do you want more than one multinational company as the dominant producer? Do you want different nationalities? If they have to be foreign-owned, is it better to have more than one nationality in terms of foreign ownership of the company?

These are all forms of diversity which may add to our bargaining power leverage or which eventually may make us less vulnerable to the decision-making processes of any one firm or any one set of politics.

10:00

Mr. Chairman: I have a supplementary question. Mr. Bond informs me that the 11 plant closures in the US during 1986 put 20,000 UAW members out of work, 17,000 of whom live in the state of Michigan, which I think has a population quite a bit smaller than Ontario. The impact there must be huge.

My question has to do with the Ste. Thérèse subsidy, not only its international implications but also the fact that it does apparently involve the movement of some work from Oshawa. Do you know whether our government attempted to avoid that happening or to protest that happening?

Dr. Purchase: No--

Mr. Chairman: It is not really your purview, I know--

Dr. Purchase: No; I do not know that. Also, and I could be wrong in this, I believe the shift of production from Oshawa occurred because Oshawa was already changing over to another product anyway, so the product that might have gone somewhere else in North America might now go to Ste. Thérèse instead; so it was not a displacement--

Mr. Chairman: There would not be a direct reason for us being involved then.

Mr. Ferraro: This is a supplementary, I think; if it is not, I am sure you will overrule me, Mr. Chairman. When you consider whether you want more than one--

Mr. Chairman: Could you sit up, Mr. Ferraro?

Mr. Ferraro: I will try. My mother is not here; so I have terrible manners.

When you consider the hypothesis of whether you want more than one national automobile firm in Canada, Ontario or whatever, to me that is not even a question; it is something negative one might expect from members of the third party, who unfortunately could not attend today's meeting. I do not

think any rational, economically minded individual would say competition is bad, not only for the labour force but also for the consumer, from that standpoint. I think it makes sense; the more competition, the better.

When we talk about the dependence and the effect of the auto industry, particularly in Ontario, there is no question about that. I believe 48 per cent of all our exports are auto-related or manufactured goods or something like that, followed by the building industry. I am hung up on the idea that the interest rate is more important. Maybe this is an idiosyncrasy with me. Maybe I should elaborate a little bit; if interest rates are high, you are not going to buy any cars and you are not going to buy any damned houses. My question to you is: What is the most important single factor? I think I know what you are going to say, but what is the most important single factor?

Dr. Purchase: Maybe you could tell me what I was going to say.

Mr. Ferraro: You would probably say all three.

Dr. Purchase: That is a very difficult question. I am not sure I know the answer. I would say that in one sense you are right; the interest rate would be more important. Overall, a big enough reduction of the cost of capital is going to have an impact across the entire economy, and it is going to be a stimulus to all investment activity in every industry, but particularly to construction and perhaps even more specifically to residential construction. In addition, it is a stimulus to consumer spending on durables. You even get an automobile industry kick out of that. If you were hypothesizing a significant reduction in the cost of capital, I would say that would be a more profound thing than--

Mr. Ferraro: Let me ask you a supplementary question and then I will shut up for the time being.

You are the head economist for Ontario. You know a hell of a lot more about these things than anybody in this room, present company excepted perhaps. Having said that, are you comfortable that this government knows enough about what affects interest rates, whether it is the price of oil, the auto industry, fiscal policy or whatever the case may be? Do we know enough about what affects interest rates? I sense that we do not. Correct me if I am wrong.

Mr. Haggerty: Social Credit had a good line on that one. They said, "If you can control the interest rates, you can control the economy."

Miss Stephenson: Those are two different things. Knowing what the impact of the interest rates is likely to be on the economy is one thing. Controlling it is quite another. I venture to say the people in the Ministry of Treasury and Economics do know the effect of interest rate manipulation or movement; they sure as hell do not have any way to control it.

Mr. Chairman: While Dr. Purchase collects his thoughts, that reminds me of a question you asked about 18 months ago.

Mr. Ferraro: Was that the other one I asked? I could not remember what it was.

Mr. Chairman: When this committee was trying to decide whether we wanted free trade, you said, "If you do not know, who the hell knows?"

Mr. Ferraro: That is right. How the hell are we supposed to know?

Dr. Purchase: Do we know enough about interest rates and their impact?

Mr. Ferraro: And what affects them.

Dr. Purchase: We know an awful lot. Often our problem is that even though we know that, there is not a lot we can do about it. More than any other market, capital markets are the most global in nature. It is very hard to insulate yourself within a nation or a province from this enormous flow of capital from one country to another. The markets now are connected up 24 hours a day. They are extremely sophisticated. They use the highest levels of information technology. It is very tough.

I remember when I first took courses in economics, the models that were used in the American textbooks to describe how the economies were supposed to work were almost all what we call closed-economy models; they assumed no one else existed except the US.

Mr. Haggerty: They still do; they set the rate.

Dr. Purchase: Even in the US--this may account for their changing attitude towards free trade--they have to acknowledge now that the rest of the world exists. Economic policy in the US--tax policy, fiscal policy and monetary policy--no longer runs without regard to the rest of the world, mainly because these markets are much more closely connected now.

I would never want to shut off future research into a thing as important as interest rates and how we can manipulate the price of capital--if we can do it--to enhance the position of the provincial or Canadian economy. It is possible we do not know enough. On the other hand, it is extremely difficult and a highly constrained exercise to find a way of getting things done we would like to have done in this province because of the global nature of that particular--

Mr. Ferraro: Is it a fair question to ask someone like you to prioritize what has the greatest effect on the economy, whether it is the auto industry, the price of oil or interest rates?

Mr. Foulds: Or a dozen other factors.

Mr. Ferraro: Other factors, too. You are right.

10:10

Mr. Chairman: They can all have such a huge impact, I wonder what point there would be in prioritizing them.

Mr. Ferraro: The only point is that people would probably devote more attention to that.

Mr. Chairman: Okay.

Dr. Purchase: Interest rates may have slipped away as a public policy issue currently because they have come off somewhat nominally.

Mr. Ferraro: They are a hell of a lot more important when they are at 22 per cent than when they are low.

Dr. Purchase: Yes, you find there is a little less interest. For example, in public opinion polls, you will find interest rates do not show up among the top issues. That will undoubtedly change. Life is cyclical and so is the economy. The time will come when we will see interest rates go up again. They may re-emerge as an important public policy issue.

They are always an issue with borrowers. Sometimes it is not just the cost of money; it is also the availability of money and whether anyone will lend it to you under the circumstances. There is a whole range of public policy initiatives and research into the question of the availability and cost of capital to small- and medium-sized businesses, how we can improve that and so forth.

There is a whole range of issues that are important and that should be researched further. However, you cannot make the cost of capital significantly different in this country for very long for a broad range of users mainly because you cannot insulate yourself.

Mr. Ferraro: I will conclude with this. First, your only guarantee about interest rates is that they are going to fluctuate. Second, some have argued that it has every bit as serious an effect on the economy to have significant fluctuations as to have continued periods of high interest rates. The fluctuations are every bit as bad as the lack of stability.

Dr. Purchase: Yes. The variability of interest rates has been pointed to by a number of people as being almost as much of a problem as the fact that they are high. In many cases, to try to get some certainty with respect to what they might be paying, some people try to overcome that by having a longer-term contract where they borrow for a longer period. I am told mortgage markets are now opening up so that people can get longer terms.

Mr. Ferraro: Yes, 10-year terms are available.

Dr. Purchase: People are looking for that kind of certainty. They would sooner pay a price to offset the risk of a large swing in the rate of interest.

Interest rates are extremely important. We acknowledge their importance when we point out what the Bank of Canada does with respect to its exchange rate policy, for example. This may sound a bit strange but it defends the dollar essentially by changing its short-term interest rate levels, which causes money to flow internationally one way or another. As the Bank of Canada watches the exchange rate, it will often move interest rates according to whether it thinks the exchange rate is being maintained at the level it believes appropriate. Earlier this year, it raised the Canada-US interest differential upwards by about 500 basis points on short-term capital. That is a very big gap. It probably had some negative effect on the economy because there was that spike in interest rates.

This has been raised again recently. Some people still believe the current gap, which is about two and a half percentage points or 250 basis points, as they say in financial markets, is having a negative impact. In other words, they do not think interest rates in Canada are as low as they should be or could be. You probably cannot get them down without having the dollar slide. The bank is determined, for one reason or another, not to let that happen.

Mr. Haggerty: The spread is still too high.

Mr. Chairman: Following along in the summary of issues, perhaps we can move to page 2. We talked a bit about oil prices remaining firm and commodity prices remaining low. I guess we have touched on that briefly, but perhaps you could expand a little. The member for Eglinton (Mr. McFadden) asked what the effect of low prices has been on our economy.

Dr. Purchase: Mr. Chairman, I have one general comment to make. If I left the impression last time when I was here that low commodity prices in general are a good thing for the Ontario economy, I certainly want to correct that impression. Clearly, low oil and gas prices are, in my view, a good thing for the Ontario economy because we are a net importer.

Mr. Chairman: I do not think there was any suggestion that you were suggesting that with regard to other commodity prices.

Dr. Purchase: I see.

Mr. Chairman: I am sorry; I bunched them together in the question.

Dr. Purchase: On oil prices, we in Treasury have our own experts on the energy sector. I think they are really excellent people.

Mr. Foulds: Excuse me. You have those in Treasury as opposed to the Ministry of Energy?

Dr. Purchase: We have our own, but obviously they have many more experts on energy in the Ministry of Energy than we do. However, since our function is often to review cabinet submissions, weigh things and so forth, we have our own experts as well.

On the question of forecasts of oil prices, what we do here, quite frankly, is look at what other experts are saying--the experts in the private sector in Canada, in the government of Canada, in the United States and international experts--and make an assessment: Does that sound plausible to us? We are really relying on our assessment of what is plausible. We think our current assessment is a plausible one, notwithstanding that you can find a forecast of oil prices that is different from ours. The only way of knowing whether we are right is to wait until next year.

Mr. Chairman: Yes.

Mr. Foulds: How do you feel about the latest development related to oil prices and what Alberta did with the found money in the heritage fund? The news I saw last night and have been hearing for a couple days is that the heritage fund has only about--

Miss Stephenson: Three billion dollars.

Mr. Foulds: --\$3 billion dollars in it in real money for investment and so on. What effect is that going to have on interprovincial relations? What effect is that going to have on Ontario and the tug and pull that takes place in terms of transfer payments and taxation policy?

Dr. Purchase: The effect that Alberta has a more serious fiscal problem than it had earlier thought.

Mr. Foulds: And that we in Canada generally thought. There is the reality and the perception, and Alberta became captive of its rhetoric and we became captive of its rhetoric.

Mr. Ferraro: Maybe you did, Jim. I am not sure I did.

Mr. Foulds: The general perception of everybody in eastern Ontario was one of "Those rich guys out there with this rich heritage fund." When they were saying "Let those eastern bastards freeze in the dark," our counter-reaction was, "Those blue-eyed sheiks from Alberta." There is a real Confederation problem there, it seems to me. It seems to me it is going to rise again and it is going to be around these fiscal matters.

10:20

Mr. Ferraro: Excuse me for interrupting, but really it stems from historical precedent. Ontario was really paying the freight before and there was animosity--

Mr. Foulds: There is a very sound western Canada argument against that, let me tell you, fellow.

Miss Stephenson: I am not sure it is sound; it is certainly loud.

Mr. Chairman: I think Mr. Ferraro was suggesting that the west was accusing us of letting it freeze in the cold, perhaps during the Depression before the oil find.

Mr. Ferraro: That is right.

Mr. Foulds: Anyway, what I would like to know is what effect the oil price market and all of that stuff are going to have over the next year in terms of our negotiations with Ottawa.

Miss Stephenson: I gather the real problem is liquidity. There is precious little liquid asset in the heritage fund, but there is an awful lot of investment out there which must be paying some kind of dividend and must be providing the Alberta government with some kind of revenue for purposes of enriching the fund, as I understand it. The difficulty is they just do not have cash right at the moment to do the kinds of things they need to do.

Mr. Foulds: We give capital expenditures to hospitals and things such as that. Alberta funded them out of the heritage fund.

Miss Stephenson: I know that, but Alberta lends a lot of money as well. Quebec, for example, was the recipient of a significant series of loans, not just one.

Mr. Ferraro: So was Newfoundland.

Miss Stephenson: Newfoundland and the Maritimes, but Quebec was the major one.

Dr. Purchase: My answer would be yes, I think it will have a profound effect on federal-provincial relations and interprovincial relations. If you look across Canada, you see vastly different unemployment rates.

Mr. Foulds: If you look across Ontario, you will see that.

Dr. Purchase: And across Ontario. In fact, the Ontario economy is a reflection of the national economy in that respect. One of the most striking features of the economy is this uneven economic performance by sector. Of

course, it plays out nationally in the different provinces. Alberta is one example where, clearly, if you do not get the oil price forecast right, you really have a big fiscal problem and the economy is severely affected.

I think that has had an impact on federal-provincial relations. It is not necessarily always quantifiable, but certainly you can see a number of changes to federal policy which have taken place over the last few years. In fact, it started before the oil prices declined last September.

However, there have been subsequent changes in federal energy policy with respect to natural gas exports and the signing of what some people call the deregulation of natural gas prices and the changes in the phase-out of the PGRT, which is the petroleum and natural gas revenue tax. Instead of being phased out, it was dropped right away.

There are changes in federal policy and not just with respect to Alberta; it is with respect to all of the provinces that are experiencing the kinds of difficulties you see across the rest of the country. Certainly, if you go to a meeting of the ministers of finance, everyone has serious fiscal problems. I talk to officials and they are quite depressed about the economies of some of these provinces.

When I think of Saskatchewan, for example, it has an economy that is really heavily dependent on agriculture. We are aware of the problems with wheat sales that partially are induced by government policies in other countries, in the trade war with Europe and the US. There is potash, which is also related to the agricultural industry. There is heavy oil, which is obviously having difficulties because of the decline in oil prices. You look across the board and it is hard to find something really positive.

Mr. Foulds: What I am really asking you is, is this going to cost us money?

Dr. Purchase: I probably cannot give you the answer to that, in the sense that there is no automatic way I am aware of that will cost us money, although I may be wrong about how equalization works.

Miss Stephenson: Equalization is the area you are concerned about.

Mr. Foulds: That is right.

Dr. Purchase: It would have to be a change; to cost us money, it would seem to me that would have to involve some kind of government policy decision here. Since I am not here to speak on that issue, I am not sure I can answer your question.

Miss Stephenson: Here or in Ottawa?

Mr. Foulds: Even with the present equalization payment agreements, if you are forecasting a generally buoyant Ontario economy for the year and other regions are going to experience a less buoyant if not a recession economy, surely in the scheme of things that means in the federal pot that is collected from Ontario they will be collecting more.

Miss Stephenson: Or distributing it differently.

Mr. Foulds: Exactly that, distributing it differently to the various regions. That is built into the system right now, is it not?

Dr. Purchase: Yes, it is built into the system. I probably should defer to an expert on equalization, which we do not have with us right now.

Mr. Foulds: Do you have a semi-expert? I do not want to be facetious but can we get someone who knows a little more about this?

Dr. Purchase: We do not have such a person with us today.

Mr. Tylee: I can make one point. Alberta is not an equalization recipient, nor is it likely to become so, from what I gather. They do not qualify.

Miss Stephenson: They do not qualify. Even this does not qualify them at this stage.

Mr. Tylee: That is right.

Mr. Foulds: Can you explain that to me? Why do they not qualify? Do they have to negotiate that separately?

Mr. Tylee: Equalization is based on a relationship between your own tax base and the Canada average tax base, essentially. The Alberta tax base is such that it is still above the average, in simplistic terms. It takes 40 pages of legal text to explain. It is sort of bottom line.

Mr. Foulds: What you are saying is that in these pressures the federal government will probably sit until Alberta widens its tax base or increases its taxes.

Miss Stephenson: Until they add a sales tax or something of that sort.

Mr. Tylee: Essentially, the equalization is based both on the size of tax base and so-called tax effort. The more you raise the taxes, the more effort you are deemed to be making, and it takes both into account.

As you know, there has been a large account recently in the press about some of the discussion about equalization that primarily says the present recipient provinces essentially would like more, as opposed to new provinces entering in. The other point I would make is that there are a number of programs that automatically transfer funds between provinces, of which unemployment insurance is the most obvious one. If you have more unemployed people, and obviously those moneys come from employed people through the fund and they go to the unemployed, you get some automatic redistribution of that sort. You also get, in effect, some other redistribution through federal programs such as IRDP, the industrial regional development program, which is an industrial support program, and the Canadian Jobs Strategy, where they have quotas for provinces that are dependent upon the amount of unemployment in each province in terms of their job training funds.

So there are discretionary funds and the federal government obviously tries to tailor the distribution of funds according to the economic circumstances of each of the provinces. Some things work automatically, such as income tax. The less income you have, the less income tax the feds take from you. There are some automatic programs and some discretionary programs. There is an element of balance within the federal fiscal system but obviously it does not work perfectly with respect to Alberta these days.

Miss Stephenson: Could I ask, Mr. Chairman, whether we have reasonably clear pictures of the economic impact upon the manufacturers in Ontario who sustain a good deal of the support for oil exploration development in Alberta when the oil prices remain below certain levels? Do we have the resulting impact upon the total Ontario economy? Is it significant or is it simply something we hear from steel companies on a regular basis, that as long as oil prices are down, they are in trouble and therefore oil prices should be raised, even if they are raised only in Canada, for purposes of stimulating Alberta's economy and their economy? Or is it a very small part of the total Ontario economy?

10:30

Dr. Purchase: It is small in total in the sense that we see a decline in oil and gas prices as having a net beneficial effect. The negative effects on the Ontario economy--

Miss Stephenson: Are minimal.

Dr. Purchase: I would not say minimal, but they are swamped by the positive effects.

Mr. Foulds: Sault Ste. Marie.

Dr. Purchase: That is right. If I say minimal, I do not mean to minimize it.

Mr. Foulds: Yes. To get back to your earlier point about sectors that are not doing well, that there is an imbalance in sectors that are doing well and not doing well--

Miss Stephenson: And areas.

Mr. Foulds: And areas; that is right.

Dr. Purchase: All the work I have seen so far continues to suggest or continues to hold to the view that a decline in oil and gas prices is positive, just as a rise was negative on balance. There are clearly some sectors in industry that are hurt, but on balance the Ontario economy benefits. I also have to acknowledge, however, that the benefits have not been as quick. They have not been as dramatic as we would have--

Miss Stephenson: Anticipated, because of the impact when they went up.

Dr. Purchase: That is right.

Miss Stephenson: Therefore, was it the rise or the rate of rise that produced the very negative effects for our economy? There was a very rapid rise during a very short period, and except for one small period, there has been a much slower decline than the rise had been.

Dr. Purchase: That is a very sophisticated question that I will have to--

Interjection: Take as notice.

Dr. Purchase: It is a very technical question in a sense. Was it a

matter of the speed with which they went up? I honestly do not know the answer. It is a big question.

Mr. McFadden: I have a two-part question. They sometimes come in two parts. I have one on oil prices and one on commodity prices. I am looking at page 11 of the review. Is there a point at which there could be a theoretical optimum oil price somewhat higher than the present one at which a rise in the price would not really create any economic problems for Ontario, but would actually turn out to be of benefit for the western economy and would help communities such as Sault Ste. Marie and other communities whose industries are exporting to the west and servicing the oil sector?

I notice on this chart that oil prices really took their decline in 1985. We were well into the recovery by then and we were into our recovery at \$30-a-barrel prices. There has been a precipitous drop since then to less than half that price. On the other hand, I do not think our economy has doubled or tripled its output. If there were an incremental increase to, say, \$20, and if it were gradual and not too rapid and worked its way up, could there be a level that would be an incentive to Alberta and a help to the western oil industry so that we would not have this conflict within Canada, but would not hurt Ontario either? Is it possible to get that or is it just a dream?

Dr. Purchase: Rather than answer the question precisely--it is entirely possible. I do not think the price for all oil has to go up. Is it conceivable that you might make agreements whereby the price for certain projects will be higher than the going market rate? For example, I believe Nova proposed to a committee of the federal Parliament that there be price guarantees for certain projects, that companies could bid to get a price guarantee and then they might go ahead with an oil sands project, the Hibernia project or something such as that. There would be a price guarantee for the output of a particular project and that project might well have spinoff benefits for Ontario suppliers of equipment, pipe or whatever.

One answer is that there might well be some benefits that could be garnered by having the price rise for certain projects and not have the price rise for everything. The other question is, is \$20 a barrel that much of a pain for the Ontario economy versus \$16 a barrel? I cannot answer that in any sense--I can tell you what the impact would be. Then someone else has to say whether that is tolerable or intolerable.

I can provide these ready reckoners, which are the impact of several things we have tried to simulate for you; one is oil price changes. I can reverse these numbers. Let us say we have a \$5 increase in oil prices, to get it sort of close to what you are suggesting. It would take only about one tenth of a percentage point off the growth rate in the year in which--for a full-year impact, \$5 would not have a huge, negative effect on balance. On the other hand, if we had started certain projects and if they kicked in and started to buy steel or whatever, there could be some positive effect for particular material producers. The overall negative effect is not large in the short run. In the long run, it is a little bigger, about half a point negative effect on average each year.

Mr. Foulds: In those terms, say the growth rate is 6.9 per cent; then this would make it 6.8 per cent.

Dr. Purchase: This would be the real growth rate. We are talking in the area of instead of 3.6, we would be talking about a one-year impact of 3.5.

Mr. Foulds: In the long term, instead of 3.6, it could be 3.1, which makes it much more significant.

Dr. Purchase: Yes. In the long term, half a point on growth is a lot.

Mr. Foulds: Yes, it is, especially when you are down to a growth rate of three per cent or something such as that.

Dr. Purchase: It accumulates over a number of years. You are talking about a lot of income that Ontario would be foregoing as a result. I am not saying it is a bad thing to do that. I am just saying that is what the effect would be.

Mr. McFadden: You have confirmed a concern that I raised last week. To some extent at least, we are in a situation where one region of Canada clearly benefits from the problems another region faces. That is a tradeoff you face in a country, how you share the benefits and the pain. That leads me to the area of commodity pricing.

From everything we learned at our select committee on economic affairs where we looked at commodity pricing, of agricultural products as well as raw materials, as you look down the line, it does not look promising in the sense of a major recovery. There are so many new sources of raw materials around the world, perhaps at cheaper prices than those of Ontario or Canada. A number of our former major markets for food now are becoming self-sufficient or close to it. In some cases, they are net exporters.

This is creating serious problems in this province and in this country. Dealing just with Ontario, a large part of southern Ontario is doing extremely well in this environment. That could change. We talked earlier about the auto sector and so on. However, southern Ontario has done well in this environment to date. Northern Ontario is doing poorly. Parts of the agricultural sector are doing very badly.

10:40

I am curious to know where you see us going over the next number of years. Obviously, our planning now has to be predicated on certain assumptions. In your view, are we looking at a situation of instead of chronically depressed commodity prices, maybe we are talking about the way it is going to be? "Depressed" means that there is a normal situation and that this is abnormal. Have we now hit a new norm, in which case this basic recession or depression that a lot of areas of Canada are feeling could turn into a long-term, almost permanent condition? I am curious to know whether that is what we are looking forward to or do you expect that by the 1990s this will turn itself around and we will head up to what we would call more normal pricing?

Dr. Purchase: What we have built into the forecast is a modest recovery, a modest improvement, but nothing dramatic in the prices. We have output increasing in mines, in metals, for example. When you look at these industries, the big story for the future is almost exactly the same story as it has been in the past. Surprise, surprise; the story is that they are going to become more capital intensive. As they put in more machinery and equipment, they are displacing more labour. To me, that may be the thing. Ultimately, the profitability may well return. In fact, there is substantial profitability in some forest products, for example, even though prices have not fully recovered.

I can imagine a situation in which profitability can be restored to the industry, but with a lot fewer people employed in it. From a regional development perspective, you may still have what you may think is exactly the same problem you have always had, even though the industry has recovered because fewer people will be employed in the mine or whatever. The long-run view is mixed. It depends what you focus on in one sense, whether you are focusing on employment or on the output of the industry per se.

The other thing to mention is that some things such as platinum and gold are clearly doing well. We see no reason to think they will not continue to do well, but we know gold prices have fluctuated in the past. Platinum prices are as they are in part because of political issues with respect to South Africa. These are very difficult to predict for the future. Will some major political event cause the price of an important commodity that is produced in Ontario to change? I do not know the answer to that.

I can say that over the long haul I see these industries becoming more capital intensive. They are highly competitive. They are competitors to the extent that Third World countries are forced to produce for social reasons as much as anything because there is simply no other employment in many cases. You know that if you get in trouble and demand falls, supply will not contract by the same amount because those competitors will not shut down. They will keep supplying output to the market.

Communist countries behave in the same way. They do not necessarily respond to the market in the same way western producers do. These commodities from Community bloc countries will be supplied in any case. Similarly, a lot of developing Third World countries will continue to supply even though prices are depressed. The western producers, the capitalist producers, become the swing producers; they will cut their production to sustain prices.

Mr. Mackenzie: Are we the only ones dumb enough to be dominated by the marketplace when it comes to jobs?

Dr. Purchase: I am not saying we are dumb in doing so; I am describing what probably happens. I do not see these things necessarily going away in the future. As I understand it, we can anticipate more production from Third World countries and so forth, especially if they are driven to earn foreign exchange to pay debts and to continue to develop. These industries are driven to put in more and more capital equipment, which displaces labour in substantial quantities. That is not new. If you look at them, this has been a regular process that heightened dramatically after 1982. In subsequent years, a lot of labour has not gone back. That is the issue. We tend to focus on whether we can expect employment to be restored to original levels. I doubt it.

Mr. Mackenzie: Are you doing any tracking at the moment of plant closures in Ontario?

Dr. Purchase: The Ministry of Labour tracks that. I believe it has a publication. It has the plant closings and we get that.

Mr. Mackenzie: Have you any awareness whether there are the beginnings of a rather drastic increase in plant closures in Ontario?

Dr. Purchase: I will have to consult. Let me get back to you on that. It is a factual question and we can answer that. I do not think we have the information at this moment.

Mr. Mackenzie: I guess the whole issue of rationalization ties into what you have been talking about. I am sorry I came in late but I had some other things to do.

Dr. Purchase: Rationalization is part of it. The rationalization process has not been as dramatic and extreme in Ontario as it has been in the United States where manufacturing jobs have been shed in absolute numbers. They are down by a very substantial number of jobs in automobiles, steel and right across the board; it is not just in the production of raw materials. There is a rationalization process going on. Plant closings may well be related to that rationalization process. They are in the US. The impression you get is that they may be here.

Mr. Mackenzie: Is that factor taken into consideration as well as new machinery, new investment and more production with less workers, when you look at the economic outlook? I presume it is part and parcel of the same picture. You take that into account as well when you look at the forecasts.

Dr. Purchase: Yes, we take that into account as well. The forecast is a starting point for a lot of these things. A forecast, unless it is going to be this thick, is not going to answer all the questions anyone would normally have on these things. We do not do everything and have it ready on the shelf because we do not have that many resources. I would be happy to have them but I do not. Basically, we respond when someone says: "This is very important. We need more on it." We do the work on demand as opposed to having done it all in detail in the beginning. The forecast gives you a pretty good general indication of where we are, and then if anything more in detail has to be done, we really have to get down and do it and bring it all together.

Someone in my department may well have the answers to all of these questions; I am sure someone does. For each question there is probably someone there with that kind of expertise who will say, "Sure, I have that, and I know exactly what you want and what you need." Unfortunately, I do not have all the answers in my head.

I can assure you there is someone, somewhere, who is at least giving some consideration to that or has seen some information related to it and who certainly could get whatever is available in a fairly reasonable time period.

Mr. Mackenzie: It is the time frame and in terms of your guesstimates of the working papers the Treasurer (Mr. Nixon) used that concern me. I have had calls in the past week from three of the major unions, all with new plant closures that we had not really expected. The disturbing factor is that two of them have told me they have just set up a mechanism to try to start charting what they see as a rather drastic increase developing in plant closures again. I do not know whether that is accurate, but it seems it would have some influence on the Treasurer's figures as well, or it should have or should be factored in early.

Dr. Purchase: I saw something recently tracking that. In fact, I have been asked the question, and I believe we did something on it, so I will get back to you. We do not get our own numbers; we do not go out and do our own surveys. We rely on the Ministry of Labour's surveys for plant closures. We can get back to you, but we will be coming back to you essentially with information that they produce and that is available to you now.

Mr. Chairman: You may or may not be aware that this matter has concerned this committee a fair amount in the past month. In fact, we reported

an interest in pursuing it to the Legislature and then decided we could not pursue it and also pursue the budget problems at the same time. I believe it is in the process of being sent to, or it has been sent to, the standing committee on resources development, so you may be requested to talk to them about it.

It is involved, of course, in the whole province, and particularly the northern regions of the province. One of the problems of the offshore auto producers coming in and producing basically assembly plants as opposed to using our natural resources is one that affects the whole province. It is something we all have to be concerned about, because the one problem affects the other problem, does it not?

Dr. Purchase: Yes. I recall in particular--I think it was in 1982--when there was a very great deal of interest in plant closures, plant closures legislation and so forth, and it may well be coming back. There is always interest, but it may be revived because the numbers have moved more dramatically in recent months. In the last numbers I saw I did not notice any particularly huge increase, but the stuff I saw was really out of date. I am perfectly willing to be instructed and I will undertake to have myself so instructed.

Mr. Chairman: Unless there are some other questions in that area, I wonder whether we could move on to the housing items that were raised in the middle of page 2. Your presumptions were that the housing market would remain buoyant.

Dr. Purchase: Yes. It is based on continued low interest rates. In fact, we see rates coming off a little further next year. We think the demographics are good for the housing market. We still think there is some pent-up demand, as we call it; that the housing market was so weak beginning in the late 1970s, early 1980s, that a lot of household formations were not, in our view, reflected in any kind of new rental or single-family housing starts. That is now coming on stream, and therefore we continue to see, as I say, some demographic push to this.

There are also some supply constraints. You can see that this market is so buoyant because of all the problems that are starting to appear--of every description, unfortunately. Thus, the supply constraints, we think, may cause some starts to be delayed into next year, so that some of the demand we would have seen this year is probably being pushed into the future because of supply constraints.

Those are essentially the reasons we think it is still pretty buoyant. I tend to think the housing sector at this stage is an awful lot like automobiles. In 1983-84, there was a lot of pent-up demand, but nobody had any idea there was as much as there was. The formal forecasts and so forth just did not show it; they were not buoyant enough, essentially. The reason is that people knew there was pent-up demand in the automobile market--there had been a lot of delays, and people were keeping their cars longer and so forth--but they had no idea it was going to be as buoyant as it turned out to be. I think the housing market could be like that. It is more sensitive to interest rates, though. It seems to me there is pretty good strength there, and our view is based on that. We are optimistic.

Mr. Mackenzie: You are basing it on private sector purchases, basically, which have a tendency to be higher-income housing.

Dr. Purchase: In the higher-income housing, yes.

The other question is a question of which part of the market it is and so forth. I am going to suggest that you might talk to the Ministry of Housing, because really we in the Treasury do not get that far into it. Unless there is a special request for us to do that kind of stuff, we do not start out looking at it in that kind of detail. We are interested in what the total market is, how much economic activity has taken place, and initially, unless instructed, we are not as interested in the details of who can afford those houses and so on. We do not start with that kind of thing.

Mr. Mackenzie: The difficulty, and what I was trying to get at in that question, is that at some stage there is probably a year or two when the market could be sustained by an infusion into social housing, and whether that is one of the things that is held in the bank or is being considered by the ministry, because that type of housing just does not get built by the private market, basically.

Mr. Chairman: That is a perception I have noticed in my area. The new housing going in seems to be incredibly pricey housing, but it is being purchased by young families. I do not know where they are getting the money.

Mr. Mackenzie: There are two earners in the family, and they hope nothing happens.

Mr. Foulds: That is an impression we all have across the province. What I am curious about is that when you look at housing as part of the stimulus to the economy, you are relying on other forecasts. Where do those other forecasts come from, the Ministry of Housing?

Dr. Purchase: The Ministry of Housing does one. It is not exactly the same as ours.

Mr. Foulds: You do one yourself?

Dr. Purchase: We do one ourselves. We do not build it up in detail.

Mr. Foulds: What I am interested in getting a clear idea of is, when you do that estimate, as my colleague Mr. Mackenzie asked, is it based largely on private sector initiative?

Dr. Purchase: Mr. Deutscher, do you want to answer that?

Mr. Deutscher: If the question is, are most of the housing starts not subsidized by the public sector, then yes, it is the case that most starts right now are--

Mr. Foulds: No. What I am asking you is whether your forecasts, which have an effect on job creation, on the turnover of money and on economic development, as I understand it, are based mainly on private sector forecasts.

11:00

Mr. Deutscher: No, that is not the way we go about formally doing the forecasts. We look at the range of economic factors that determine conditions in the housing market: what we think interest rates and the other indicators of economic activity are going to be; growth in income levels; the unemployment rate, which affects the level of confidence in the economy; what

the demographic factors are; and the state of demand for housing in the market. Those things determine our overall view.

Concerning the public sector role in the forecast, we build into the forecast the present level of indicated plans of the government for housing needs. We do not build in changes to that policy.

Mr. Foulds: Somewhere in that sector there is the co-operative sector, which is neither subsidized nor private. How does that enter your forecast? I guess what I am getting at is, as a result of that, do you at any point make recommendations to the government about cooling down one market and stimulating another, whether it is in housing or in any other sector? That seems to me to be the ultimate purpose of a budget-making process, unless you are just interested in getting revenue.

Dr. Purchase: The answer is that we make recommendations with respect to our views, if you like, which are not necessarily the cabinet views in the government on this issue or the only views that would be heard by the Treasurer. We would conceivably become involved in that. It is a complicated process. Sometimes we are asked directly to do this. Occasionally we may ourselves, because we have been doing extensive work in a particular area, bring forward an issue for consideration.

Thus, the answer to your question is yes, but we do not necessarily start off our whole process saying, "This is the most important thing in the economy, this is what we should be focusing on and this is what you should do from a policy perspective."

It is appropriate to be asking these kinds of questions in the final analysis. What is a budget document, anyway? Clearly, it is a statement of priorities, economic and social. It is not the only statement; obviously, the speech from the throne is also such a statement. However, reviewing the economy is a critical part of the budget process, as is reviewing the economy from a short-term perspective--I do not mean to exclude social issues, either--and also from a medium-term perspective. What are the issues, what are the immediate problems and what are the long-term things we should be addressing in our tax policy, in our expenditure policy or even just in establishing an overall perspective or framework within which all policy will proceed?

Those are appropriate issues, but we have not addressed the particular one we have been talking about, and we typically will address these issues with more information if a minister says to us, "That is really important," or when we have an agenda we have been given that says, "This is important and that is important" and so forth, or occasionally because we are overwhelmed by the evidence on something.

Mr. Foulds: You are saying that if you see evidence that there is a crying need in the housing market for people with incomes of, say, \$35,000 annually or less to be able to have access to housing, either the Ministry of Housing might make that presentation to their minister, who makes it to the Treasurer, or you might make it. On the other hand, your political masters might say: "We want to build 40,000 subsidized units. What effect will that have on the economy?"

Dr. Purchase: Any of those things is possible, certainly. We might be asked--

Mr. Foulds: At what stage does that happen in the budget-making process? The budget usually comes down in April.

Dr. Purchase: It is a continuous thing. There is an intensive stage in terms of the numbers of meetings one has about these things, but as you know, the whole public policy process is one in which every day there is some new issue on the agenda and some new problem that needs to be addressed.

My own experience, after roughly 11 years in this, is that it is a continuous process. Some things continue to come up enough times that no one ever questions that they are on the agenda. Other things are put on the agenda by individuals, by ministries, by outside groups, by the whole budget process, all of which is all this information essentially feeding in to those who must ultimately make the decision about what will be in the budget or what will be the fiscal framework of the budget.

Miss Stephenson: The fact is that it can become a part of the process at any time up until the day the budget goes public, or is printed.

Mr. Foulds: Printed but not published.

Miss Stephenson: It may be the very last item before that.

One of the things that concerns me about the forecasting in the construction area, and particularly in the housing area, is that I am informed by certain people in the industry in this province that the only hotspot in North America at the present time in terms of economic development, particularly that related to construction, is the Golden Horseshoe.

My concern is that the things that happen in the Metropolitan Toronto area tend to distort, no matter how carefully you try to look at the diversity of the province, the basic premise from which you make budgetary decisions. I am really concerned that right at this point this fact is going to have a major impact on the kind of decisions that are taken in relation to budgetary activity this year. If it is that anomalous in this small area of the whole of North America right at the moment, it is significantly anomalous in relation to the rest of Ontario. What factors are we going to use in order to ensure that we try to produce something that is at least relatively balanced as far as the rest of Ontario is concerned?

Dr. Purchase: My comment is that I think you are right. We certainly are always dealing with a perception problem here, especially now because a lot of what is happening in Ontario--in the Golden Horseshoe, if you like--is anomalous with respect to the rest of the country and the rest of North America so that often people are not wholly inclined to believe us.

On the other hand, they may take the other view and say, "If I look around at my neighbours, what do you mean there will be a possible problem?" We are certainly aware of these perspectives that people bring to us.

On the specific issue of housing, the answer is that we will take a much more in-depth look at it. Information is available on starts and on the conditions in housing markets across the province, not just in one part of it. We present the number of housing starts because that is essentially what we are asked to do in the early stages of an economic forecast. But as people indicate to us that more information is needed, it will come either from the Ministry of Housing or from our own researches into the details of how it splits out across the province, who is involved and who is not involved and

what the issues might be. Or we might be told what the issue is and we will go investigate it.

I do not know whether that is a complete answer, in the sense that I cannot say we have done that. We have not done that, but that is how the process works. If we were instructed to do that or if the Ministry of Housing were instructed to do that, then we would bring forward information.

11:10

Miss Stephenson: May I ask one supplementary? To my knowledge, this is the first time in the past 15 years that this anomalous situation has concentrated specifically in this area. Is there a history of that kind of peculiar economic situation in any one part of the North American continent, and what has been the result? Surely if all the rest of the economy is not as buoyant, this one is going to sink.

How dramatically is that likely to happen? Your best scenario is that it is going to be relatively gradual and we probably will not suffer too painfully from it. Has that been the history in the past, or is it because we have developed better economic mechanisms since the last time this occurred?

Dr. Purchase: Again, that is a very good question. I had not thought about how long you can remain--

Miss Stephenson: You can sustain it.

Dr. Purchase: There are some other areas. I would not say it is entirely unique. The Boston area is an example of a region that has gone through not only a transformation of the economy, but also a dramatic revival of the economy. There was an example of an economy that was heavily involved and totally dependent on the textile industry, which was no longer growing, in fact was declining.

For many years, that area represented a problem. It was always an underdeveloped region and everyone tried to figure out how to make it grow. It now has one of the lowest unemployment rates in the US. Its performance has been remarkable. Many people ascribe that to the concentration of high-technology industries and the concentration of universities, of knowledge-based--

Miss Stephenson: It was the investment in intellectual capital that made the difference.

Dr. Purchase: That is right. There is a good deal of truth in that. It is an area worth studying in depth to see exactly how they accomplished this. There are a large and important number of service industries, etc. Strangely enough, since it was a predominantly Democratically controlled region of the country, they also got a very substantial part of the defence spending increase that came about when President Reagan increased the defence budget. I know there was a lot of spinoff from the defence side in that region.

I would not say we were totally unique, but we do represent a unique situation. On the question of how long it can survive, I think it can probably survive quite a long time. We had a very long period of uninterrupted expansion in Ontario from 1962 until 1971. We are going into our fifth year of expansion, and it is not unknown for us to go for a very long time without a recession.

Miss Stephenson: But the difference was that during the 1960s that expansionary mode was translated across Ontario in a more even fashion than it is right now. A significant number of the regions of Ontario were benefiting as well from that, which is not necessarily true today.

Dr. Purchase: You have me there. That is an interesting issue, and I had not thought about it in those terms. I will take a look at that and think about it some more.

Miss Stephenson: The Boston example is a very good one for us to look at. We should not wait until we sink into the morass that the Boston area was in before we do the kind of financial and economic manoeuvring that needs to be done. That intensive investment in intellectual activity is the one thing we really have to pursue.

Mr. Chairman: As one who lived outside the Golden Horseshoe in the 1960s, I am not sure the feeling was that everthing--

Miss Stephenson: I am not saying that all regions did, but the net was wider. For example, it covered a number of areas in Northern Ontario. The Thunder Bay area did reasonably well for that time because of expansion of the resource industries.

Mr. Chairman: Members of the committee should be aware that both the Toronto-Dominion Bank and the Royal Bank predict a cooling off of the housing market because of a cooling off of pent-up demand. The Toronto-Dominion Bank predicts 65,000 units in 1987 and the Royal Bank predicts 68,000, while the ministry is predicting 77,000.

Mr. Mackenzie: I want to go back to housing for a second, but first I think my colleague Dr. Stephenson is right on in saying that at the moment, we have a regional blip or a regional distortion in terms of the more buoyant economy in the Golden Horseshoe area, albeit that is a major population area in the province.

Even in respect of the housing situation once again, if it would have any input or if we are talking about how the budgetary figures arise and what the priorities are, what you have said to me is that if there is a slowdown in the pricier or the high-priced or the private-market homes, and if the banks or other people are correct, either there has to be that slowdown and you figure you have to take up the slack or there has to be a conscious political decision to say that because the one area that is not satisfied is the lower fixed-income housing market, the priority in the next year is going to be 30,000 or 40,000 additional units.

It has to be either a political decision, which means it has to be made far enough ahead to do the planning in the budget, or a response to a slowdown that has not been anticipated, which also skews the figures to some extent in terms of budgetary planning. Is that perception correct, or am I whistling in the dark?

Dr. Purchase: That is probably correct.

Mr. Mackenzie: What it does say is that you cannot separate some of these issues even though the tendency is to put that as a social issue. If you want to maintain for another year or two a buoyant market in housing, you have to take a look at what the differences are in doing a little more subsidizing, as you may in that kind of housing, and what it is going to cost you, what the offsets are.

It seems to me that the only two options we have are to make a political decision early on, which then has to be reflected in your planning, or wait until we see a real drop in the other market and at that point decide we are forced into doing something to jack up the market. The only way you are likely to do it is with the kind of housing that is not being built.

Dr. Purchase: The housing market is a highly cyclical market and is very sensitive to interest rates.

Mr. Mackenzie: The interest rates do not seem to have a hell of a lot of effect on the housing we need most.

Dr. Purchase: Except perhaps indirectly, and maybe not a wholly beneficial impact.

For example, part of the thing is with the interest rate decline in this kind of market where there is a lot of pent-up demand. Some of that interest rate decline gets built into the price of the house. In other words, the sellers essentially capitalize the interest rate decline. You do not get it as a buyer, but you can carry the house more easily, and one of the most important things for families is often whether they can meet the monthly payments. If interest rates decline, the buyers can afford to pay a little more on the price of a house and still meet the monthly payments.

Typically, what happens in such a situation, and I think this has happened in Toronto, is that part of the increase in inflation or the increase in house prices has been a capitalization of the interest rate decline into the price of the house. It may not be of any great benefit to the buyer, but clearly, it is of some advantage to the seller, and that may also have to be taken into account.

You mentioned the possibility of housing being a matter of public policy and when that should be implemented. In a very heated market, as apparently we have now, if I am to believe the stories I hear and the reports that have been given to me by other officials, there is a serious supply problem, and we are getting all kinds of misbehaviour as well as some anomalous behaviour.

11:20

If there is additional pressure at this time on the supply side, problems with labour shortages or materials shortages, this may not be the ideal time, but you could make a policy decision now to do that at some time in the future. You can decide to do something now, but not do it now. You can decide to do it at a time in the future when the market goes off somewhat and try to even out demand over a longer period of time. In that sense you would be using public housing for two purposes, not only to do what you believe is right in terms of public housing, but also to use it to balance the economy.

I am not suggesting you should, but you raised the possibility. That possibility is certainly there, and the one thing you have to be concerned about is pushing an already heated market. Something has to give, and it would not be the public housing that would give, because that would be done regardless. If some rationing of supply has to go on, some other part of the market would have to be split.

That is my only comment without knowing very much about it at this stage. It is certainly something that could be taken into account and probably would be taken into account, if this discussion were to be had under normal

circumstances in the Treasury. In other words, we would lay it all out and say: "Here it is. This is what we think. What do you decide?"

Mr. Chairman: Any other questions on construction, housing, etc.? Maybe we can move along to consumer demand in a general sense, in reference to page 12. We referred to Mr. Haggerty's question earlier, and I do not think there is anything more to say on that. I think Mr. Ashe's is somewhat politically motivated. I am presuming your answer is yes to that one.

Dr. Purchase: Yes, it has been taken into effect. The temporary surtax was applied in 1985 initially, and it is included in the 1986 numbers.

Miss Stephenson: It is no longer temporary, is it?

Dr. Purchase: That is right. I do not know if they changed the name but it is no longer--

Miss Stephenson: It has no cutoff date.

Dr. Purchase: That is correct.

Miss Stephenson: Shades of 1917.

Mr. Chairman: The first Income Tax Act was temporary, was it not?

Miss Stephenson: Exactly.

Mr. Chairman: Mr. Mackenzie had some questions about the source of your figures on page 13.

Dr. Purchase: Yes. The answer here is that when we talk about nominal personal income growth, we do not mean the personal income growth per capita or per employed person. We mean the total nominal income of all employed people in Ontario.

Mr. Deutscher: As a footnote to that, it is not just employed people but all forms of personal income, interest on dividends and farm income.

Dr. Purchase: So it is not just labour income, but other forms of income as well. That means when it increases, it will increase because there will be increases in these other forms of income, increases in wages and also simply increases in the number of people employed. We are not saying that everyone in the province should have an increase of 7.8 or 8.2 per cent in their nominal income. We wish they would, but unfortunately, that is not the case. Our forecast for 1986 was a 4.2 per cent increase in personal income per employee.

Mr. Mackenzie: That does not take away, I do not think, from my question. I do not know whether I asked it properly. When we are thinking of that kind of increase in income, it is the old argument of who is getting it; are the rich getting richer and the poor getting poorer, if you like? That has a direct reflection on the spending ability of people, I believe. That is what I am wondering. When you talk about that kind of increase, how widely distributed is it and to how many people? A family can buy only so many widgets or whatever the hell it is. How many families are able to do that and have an influence on the continued consumer demand. That is the point I was getting at.

Dr. Purchase: Unfortunately I cannot answer the question. I do not have the information to answer that question, nor do I believe it exists. We do not know how many people would get more or how many people would get less. We could answer that question retrospectively; in other words, we could get some numbers and take a look at how income distribution has changed over certain periods of time. I am not sure how up to date we can bring that. We can probably do it up until 1984.

Mr. Tylee: Statistics Canada has some material on that, but I should caution you it is material that is open to any number of interpretations, partly because some of the issues you raise related to individuals and families; that is, many families have one income earner, some have no income earners, some have two, three or four with part-time jobs in between. Statistics Canada does have a series that is fairly late in terms of being up to date, but it is not definitive. We can get the information to you, but I should caution you they are the sort of numbers that pose as many questions as they provide answers.

Mr. Mackenzie: One of my concerns is that the previous work of this committee, for example, just on the increase in both takeovers and corporate concentration in the province, would seem to indicate at least a possibility that when you are talking about 8.2 per cent or whatever percentage it is, that may be concentrated more and more and more rapidly than has been the case in past decades, or the potential is there at least. I understand the figures still show a decrease in the amount of income that the bottom 40 per cent or whatever it is of the population are getting, and that is why I asked the question. When you talk about consumer demand, how accurate is it? It would not take much of a change in terms of percentages to indicate a lower consumer demand for many of the products that keep us going, if indeed that is a fact. How much of a handle do we have on that in terms of our forecasting?

Dr. Purchase: We cannot answer the question. It is an important question, but we do not have the information. What the models essentially do is they run off history; they assume that whatever the distribution was in history that produces the kind of consumption pattern you see will continue to be. Clearly, if over time there were a dramatic change in the income distribution, we would get wider and wider of the mark in terms of our forecast.

Mr. Mackenzie: It was positive when we had a growing middle class even, but that seems to be shrinking now. I am wondering whether these things are just too airy-fairy to work into early on in the considerations of budgeting.

Dr. Purchase: We could never do a forecast that said something like that. It does not mean that because we cannot forecast it, it is not important or that you cannot get enough information to get a hard impression as to what is happening. The so-called disappearance of the middle class is a big issue in the US, where it has been related largely, although not exclusively, to the loss of high-paying manufacturing jobs in states that neighbour our province. It is an important public policy issue there. We are trying to investigate it, but we are pretty early on in our investigations. Initially my impression is that it has not happened here because we are still creating manufacturing jobs in the very industries where they are losing them. That would tend to mitigate it.

The other thing is that the huge restructuring process and the corporate restructuring that has given rise to so much attention in mergers and acquisitions is getting rid of a lot of middle management as well, who are also middle-income people, so that they are also suffering, perhaps even for the first time in some of these things, which is leading to this phenomenon in the US and which is attracting increasing attention there.

Again, right off the top, I do not think it is quite as important. I do not mean to diminish it, but when we finally do the analysis and get it done, I do not think we are going to see as much of an impact there. It may still show up in certain regions because, to go back to the resource industries, there is a lot more activity there. There have been a lot more layoffs recently--I do not know whether these people are going back to work--and there has been more rationalization of resource companies where middle management has lost jobs and so forth.

You may not have the whole effect that you are going to get in the US when their analysis is all in, I suspect, but it is still going to be an important issue here because of its concentration in certain industries and regions. It is an important issue, one where unfortunately we are not as fully informed as perhaps we should be, but I do not think we are ever going to be able to forecast it, to be quite frank; I do not think we have the numbers to do it, although you can certainly get an impression of what has happened say during the 1980s to income distribution.

Mr. Haggerty: I had a supplementary following along Mr. Mackenzie's question where personal income growth has fallen to 7.8 per cent in 1986 from 8.2 per cent in the previous year.

Mr. Mackenzie: Not personal income growth.

Mr. Haggerty: We are talking about industries. I am looking at the serious impact that has developed in the agricultural industry, for example. This year the Minister of Revenue dropped the ad valorem tax on tobacco retail sales. That resulted in about \$136 million in lost revenue to the province. As Mr. Mackenzie said, it did not go back to the agricultural sector in the sense that there was some funding that was going to go back to help them to get established in another area of the agricultural sector, such as growing potatoes or some other cash crop. None of that went back for reinvestment in this area. They got nothing out of it.

Someplace along the line we lost \$136 million and somebody picked it up. As Mr. Mackenzie said, it was a large industry, Imasco, that won in the takeover; originally they were in the tobacco industry. When you look at it, none of that revenue was ever passed on to the consumer or to the producer; it went directly to the shareholders.

The matter of takeovers comes into the picture. It seems every time we get reduced taxes in one area somebody gets the benefit of all of it and in the takeover it means a loss of jobs as well, but particularly in the agricultural sector jobs are being lost there. That means income is down too.

Miss Stephenson: Is that really what happened with the modification of the tax? I know it did not go back to the producers.

Mr. Haggerty: That is right, and it did not go to the consumers either.

Miss Stephenson: It did not go anywhere, did it?

Mr. Haggerty: Sure it did. It went into the pockets of the corporations. They did not pass it on; they got a benefit out of it.

Interjection.

Mr. Haggerty: Somebody got the revenue. The province did not get it. I just wanted to raise that.

Mr. Chairman: It is an interesting point.

Mr. Haggerty also raised, at the top of page 3, the unemployment rates in table 1. He wanted to know exactly what you meant. Your source there is Statistics Canada and yourselves. There is an ongoing debate about Statscan statistics and whether they include hidden unemployment or forced or early retirement, etc.

Dr. Purchase: Just to respond on the tobacco tax, I think that question should be put to the assistant deputy minister of the budget office. The figure of \$136 million seems way too high.

Mr. Haggerty: It was something like \$136 million or \$133 million.

Dr. Purchase: I do not feel competent to answer on that point.

Mr. Haggerty: I am just quoting that from memory; it may not be a true number.

Dr. Purchase: The assistant deputy minister could probably speak to the issue of the impact of that and the motivation behind changing from the ad valorem tax to a specific tax. I will leave that question to him to answer.

On the unemployment rates, these unemployment rates are Statistics Canada numbers, I believe. They do not take into account what Statistics Canada calls the discouraged workers. We use the numbers that are typically published every month by Statistics Canada. Part of the reason for that is not that we do not think the discouraged worker hypothesis is important, but simply that we always have a different number from someone else. Clearly, there is one set of numbers that are accepted and widely published; so we go with their numbers.

Statscan does do an estimate on discouraged workers in March of every year. The latest one for Ontario in March 1986 suggested there were 19,000 such workers in this province. The Canada-wide number was 105,000. In Ontario, the 19,000 represents about 0.4 per cent of the labour force.

Statistic Canada's definition of discouraged workers is that you are not in the labour force; you want work and are available for work, but you believe no work is available. You are not counted as being in the labour force; however, you want work and you are available for work, but you do not think anything is available so you have just given up. Hence the concept of discouraged workers.

Mr. Foulds: More accurately, their unemployment insurance has run out.

Dr. Purchase: That may be. I do not know.

Mr. Foulds: Statistically, that is how they get those figures; it is the number of people reporting to employment centres.

Dr. Purchase: No. That is a different set of numbers.

The Canada Employment and Immigration Commission data on unemployment insurance recipients will not be the same numbers as the Statscan data on unemployment rates. Statscan has its own survey, which it does in the third week of every month.

Mr. Haggerty: So the figures we get from CEIC do not give a true picture of the complete number of persons looking for employment?

Dr. Purchase: No; it is not a complete number of persons looking for employment. Sometimes you will not get picked up; for example, if you are retired, you will not be counted as being in the labour force.

Mr. Haggerty: Yet there are young men out there on low pensions, you might say. For example, take the number of injured workers--I think Mr. Mackenzie will bear this out--who are still looking for employment because they cannot live on their pensions; they are in what they call a dead file in their office. They will not even suggest that they should be looking for employment opportunities with some other employer.

11:40

Mr. Tylee: The unemployment numbers from Statistics Canada that we forecast for the purposes of this table we are talking about come from the so-called labour force survey every month. The results you get depend on what the person answers. If the person answers, "I am looking for work," then he is considered to be part of the labour force. If he is looking for work and cannot find work, then he will be counted as unemployed, notwithstanding that he might have the sort of low pension you are referring to. It is a question of how the person perceives himself.

That is why Statscan does not ask the question, "Are you a discouraged worker?" The statistical results you would get out of that would be meaningless. To establish what is a so-called discouraged worker, in line with international statistical conventions, they are asked a number of questions that Dr. Purchase listed just then. If you are not in the labour force but you want work, you are available for work, but the reason you are not looking for it is that you do not believe it is there, they believe those to be discouraged workers.

Getting back to the original question about a person who is laid off perhaps at the age of 50 years, if that person perceived there is no work there, he wants to be in the labour force but there is no work there, then he would be a discouraged worker. However, if he perceives that his level of pension is sufficiently high that he can just get by and therefore is not looking for work and not discouraged in this sense, then he will not be picked up.

The whole unemployment series really depends on what the individuals themselves perceive their position to be as opposed to whether they have been laid off or their unemployment insurance benefits have been exhausted.

Administratively, for purposes of unemployment insurance or layoffs, it really does not relate in any direct way to how they treat it for purposes of

unemployment statistics or our forecast of unemployment statistics, which is derived from what a sample of people believe themselves to be in.

Mr. Chairman: I have Mr. Mackenzie for a question, but I am looking at the clock and I have been told we will shortly be summoned to the chamber to vote. There are a couple of little housekeeping matters I wanted to discuss, so a very quick question from Mr. Mackenzie and then perhaps we can proceed with those.

Mr. Mackenzie: I am not even sure if it is fair, because of the broader implication. With regard to the very discussion we have been having, for a long time I have used the example of what has happened to the workers at Consolidated-Bathhurst in my riding, which we tracked fairly closely for a while. Recently, it is down to 20 per cent of the workers who are not re-employed, from a very much higher level three years earlier.

I was called the other day by Rudy Oliviero of that plant, who worked on the three-man committee that tried to find some jobs for them. He told me that even I was being misleading on that because while it was now just slightly less than 20 per cent who were not working, was I really taking into consideration the number who had retired early and were no longer in the force simply because they could not adjust or there were not jobs for them, and the five who had left the work force entirely by committing suicide. If we took those figures into consideration, we would still be looking at 50 or 60 per cent of the older workers in that plant who were not working.

At what stage do workers in these categories become a significant number? How effectively are they covered in our statistics? There are people who are retired at a hell of a lot lower pension and may even be on welfare to some extent or certainly are not getting a hell of a lot more than the Canada pension. Maybe it is even a reduced rate at that, because they have not worked in the past few years.

I am just wondering how true our figures are. I suppose that is part of what we call the hidden or uncouneted unemployed. They are really right out of that role, but they are in a much lower category in terms of their purchasing power than they would have been otherwise. I still suspect it is a very small number out of the total picture, but at what stage does it become significant? Do we have any track on it?

Dr. Purchase: The question of older workers in general is one that I think is going to receive a lot more attention. In fact, we have published something in our report that shows that the duration of their unemployment, once they become unemployed, is quite a bit higher. The older you get, the longer you stay unemployed if you become unemployed.

We have low unemployment rates for older people, mainly because they have been in the labour force a long time, and if they have got a job and they are fortunate enough that nothing goes wrong, they are going to keep it and have a low unemployment rate. However, if they become unemployed, they have a very much higher duration of unemployment than anyone else. As I recall the numbers, that has worsened since 1982.

Therefore there is a serious issue here. Do the numbers pick it up? It seems to me the survey numbers do not identify what circumstance, or reasons or anything else about you. Therefore, I do not think an unemployment number tells you everything there is to know about the labour market in terms of the stress of people in it.

Mr. Foulds: It does not tell you anything about purchasing power either. The people that Mr. Mackenzie is talking about have very much reduced purchasing power and that has a negative effect on the economy.

Dr. Purchase: Therefore, I think my answer would be that we are aware that there is an important issue there. There are some numbers on it. We have put one chart in here. There are more numbers available on this general question. Certainly, we will give you all the information we have on the subject, which is not more information than is publicly available, but at least we have people working on the thing and we can organize it.

Mr. Chairman: Thank you. The first question I have to ask the committee is that we have now gone about two thirds of the way through the issues that we wanted to raise, so would it be appropriate to invite the members of the ministry back to our next meeting, which would be Thursday, January 16, 1987, to conclude this? Perhaps the first hour or hour and a half, followed by some of the other analysis of the report that were--

Mr. Mackenzie: I found useful the time that we have had or that I have been here. Unfortunately, I was not here at the beginning. I think that would be useful.

Mr. Chairman: Thank you. The other thing is I want permission from the committee to do over the course of the break has to do with the reference to us of Bill 116, which has been given a fairly low priority. I understand that the federal government is today tabling its new legislation and it may be that at some time we may find it appropriate to place advertisements for hearings on Bill 116 to occur some time in the spring. I wondered if the committee is in agreement with our doing that perhaps at the discretion of the chairman or of a subcommittee.

Mr. Foulds: You are going to place ads?

Mr. Chairman: We are going to place ads inviting people to make submissions on that bill.

Mr. Foulds: Written submissions?

Mr. Chairman: Written and/or oral.

Mr. Foulds: You mean you are planning hearings.

Mr. Chairman: Yes. I understood it was referred to us for that purpose.

Mr. Foulds: Okay. Do we have the dates of the hearings set?

Mr. Chairman: No, we do not and we could not prepare an ad right now.

Mr. Foulds: That is why I raised the question.

Mr. Chairman: I thought it might be something the committee might wish to delegate to the chairman. If it looks as if I am receiving some pressure--and I am just anticipating this; it has not occurred--to get on with that, if we could find some times in which there might be a gap in our budget hearings in the spring, we could fill them in with hearings on Bill 116.

Mr. McFadden: I am not speaking against you on that, but I am wondering, as a preliminary matter, if we could (1) get a copy of whatever the

federal government is coming up with today and (2) if in January, as I do not think we have a particularly full agenda right now in terms of people coming here, we might get back representatives from the Ministry of Financial Institutions to review with us the impact that the proposed federal legislation would have on Bill 116 or on the other things we are doing, because we also have this whole review of corporate concentration that is sitting out there.

Therefore, I am wondering if it would not be appropriate in January to take a look at what effect this white paper would have on us. If anything, maybe it just confirms what Bill 116 is already doing or any of the other measures that we have been talking about. I suggest that it would be worth while for us to do that.

Mr. Chairman: That sounds worth while. Our own research people are monitoring that and intend to provide us with updated material as it occurs. Obviously, it would be valuable to have that from the perspective of the Ministry of Financial Institutions, so I will take that as the consensus of the committee, unless I hear otherwise.

Mr. Foulds: I have a notice of motion that I would like to debate, which is that we start our meetings at 10 o'clock on Thursday mornings. That is a notice of motion; I do not want to debate it now.

Mr. Chairman: All right.

Mr. Foulds: It is such a controversial matter, Mr. Chairman, that we should have a full meeting.

Mr. Chairman: I did not think it was that controversial. In view of the number of --

Mr. Foulds: In view of the attendance on all parties--

Mr. Chairman: Right now?

Mr. Foulds: Right now and during the course of the hearings.

Mr. Chairman: We will debate that at an appropriate time.

Mr. Foulds: At the next regular meeting.

Mr. Haggerty: Will you be on time, Jim?

Mr. Foulds: For that one, I will be, Ray.

Mr. Chairman: We do have a number things on our plate, Mr. Foulds.

In any event, I am sorry to keep you gentlemen involved, but I just wanted to have you hear while we discussed whether or not we wish you to come back, and we do obviously. I thank you very much for your kind attendance to our concerns and elucidating your position on them. It has been very helpful indeed. A Merry Christmas to all of you.

Mr. MacKenzie: We need some better one-liners than what you gave us.

Mr. Chairman: I did not ever hear a bell. Thank God, they must be turned off.

The committee adjourned at 11:53 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
ECONOMIC AND FISCAL REVIEW
THURSDAY, JANUARY 15, 1987



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Hart, C. E. (York East L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Partington, P. (Brock PC) for Mr. Taylor

Also taking part:

Ramsay, D. (Timiskaming L)

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:

Purchase, Dr. B. B., Assistant Deputy Minister and Chief Economist, Office of
Economic Policy

Hoicka, J., Senior Policy Adviser, Primary Sector and Manufacturing

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 15, 1987

The committee met at 9:07 a.m. in committee room 1.

ECONOMIC AND FISCAL REVIEW
(continued)

Mr. Chairman: Perhaps we can start. Happy new year to everyone and welcome back to the committee. Welcome back, Dr. Purchase, to the continuation of your answer to the various questions that Mr. Bond has raised.

Before we get to that, there are a couple of brief matters that I perhaps should bring to the committee's attention. I understand that in the last day or so you have received copies of documents entitled Response To Question Raised by the Legislative Committee on Finance and Economic Affairs, which came from Mr. Nixon's office to me. Maybe we can get some other copies made of that and distributed this morning.

Second, we have a number of motions that are being distributed, one of which was given to me the other day by Mr. Foulds and is attached to your agenda. Mr. Foulds called me yesterday and indicated that he had a family matter that prevented him from being here today, and he asked that this matter be delayed until next week. I indicated that it seemed appropriate in the circumstances, especially in view of the fact that it is his motion. The other two are in front of you and they are similar in content. Mr. Haggerty and Mr. Ashe have motions.

Yes?

Mr. Ferraro: I am just being congenial and saying good morning.

Mr. Chairman: Good morning, sir.

Their content is relevant to some of the things that I think we are going to be dealing with this morning, and also to the answers that were given to us by the Treasurer (Mr. Nixon).

Perhaps we can turn, then, to the questions. I myself am not certain exactly where we left off the last time.

Mr. Ashe: Mr. Chairman, in your view, would it be appropriate to deal with one or both of these resolutions?

Mr. Chairman: It would be appropriate to deal with them this morning. I am in the committee's hands, of course, but we did not quite finish with Dr. Purchase's answers to some of Mr. Bond's questions, and I do not think that is going to take the whole morning. Perhaps if we complete that, we can then turn to one or the other of these resolutions.

Mr. McFadden: I have just one point on that. I think the matter is of some importance and urgency. I suggest that we should deal with it this morning. I do not know whether we can set a time limit or what we should do, but this resolution is of sufficient importance and immediate urgency that we might try to deal with it this morning if we can.

Mr. Chairman: The chair is in full agreement with you, Mr. McFadden.

Mr. Ashe: I am quite prepared, if it is felt that the other aspect is going to be over in, let us say, an hour--I am not saying an hour specifically, but by mid-morning--then fine; carry on. However, I do not think we want to crowd the discussion on this issue. It is timely, important and, in my view, critical to Ontario. Part of the mandate of this committee fits right in there, and frankly, I think we should get it on the record strongly and clearly. I, for one, unfortunately happen to have a luncheon meeting, so I will have to leave no later than 11:45 a.m. or 11:40 a.m. I do not want to leave it too close to that to deal with, but if it is felt that the rest of the questions can be answered in the next hour or hour and a quarter, that is fine with me.

Mr. Chairman: I might say, Mr. Ashe, that I had no idea you were going to present this motion, but in anticipation of Mr. Haggerty's motion, Mr. Bond has prepared a packet of information for debate, and I think it is appropriate that the debate occur this morning. Perhaps we can choose a time right now at which we will cut off the discussion with the present witness, if you wish.

Mr. Ashe moves that the committee carry on to the conclusion of the discussion or to 10:30 a.m., whichever comes earlier.

All those in favour? All those opposed?

Motion agreed to.

Mr. Chairman: Dr. Purchase, that does not at all suggest that what you are going to say is not important; in fact, you will probably touch on some of these issues too. Of course, the issue everyone is concerned about is the question of an international financial centre and current federal policy on that. Perhaps you can refresh me as to where you ended up.

Dr. Purchase: As I recall, we finished talking about our forecasts on business investment and we were more or less at the question raised by Mr. Ashe about the Canadian exchange rate in reference to the United States exchange rate. That is where we are, roughly. I certainly do not need to take up very much of the committee's time in answering these questions.

In reference to Mr. Ashe's question, let me say that I think the depreciated dollar in Canada has already helped the Ontario economy. The situation in the United States that has been referred to here is also showing evidence of turning around. The depreciation of the US dollar with respect to the Japanese yen and the West German Deutschmark is now leading to some evidence of improvement in the US trade balance.

Mr. Haggerty: Are you sure of that? The readings I get from reading American newspapers suggest that this is not the case. They are talking about propping up the American dollar now because it really has not turned around the trade situation. More imports are still coming in even though the dollar has dropped considerably on the American side.

Dr. Purchase: The US trade deficit has been estimated to be somewhere around \$170 billion in 1986. We see an improvement in that. You will still have well over \$100 billion, maybe a \$130-billion trade deficit, but the main thing is to stop the bleeding, as it were; and if you get an improvement, then that is going to add to growth. You still have a deficit, but if you turn

that around, you are going to get some addition to growth by the trade sector, whereas before it was a net drain on growth.

Mr. Haggerty: I thought the trade deficit was higher than it was previously, though, even though the dollar had dropped.

Dr. Purchase: It did deteriorate. When a currency depreciation takes place, the initial effect is to cause a trade balance deterioration. The reason is that you are paying higher prices for the goods you import and getting less for the goods you export. Initially there is no impact on the quantities that people purchase in either case. In other words, it takes some time for the price effects to have some impact.

The typical effect is for the trade balance to deteriorate in a depreciation and then eventually to improve as existing contracts are renegotiated and as new suppliers are found. If you lose a market because of an exchange depreciation, it takes time to get it back, even after the exchange rate goes back down.

Mr. Haggerty: On the European market, though, there have been changes in the valuation of the currency over there to offset the drop in the American dollar. They have done that to maintain their trade balance with them on their exports. Where does this end?

Dr. Purchase: There are continuous negotiations in the Group of Five and the Group of Seven on international exchange rates and on the appropriate alignment of exchange rates between major trading partners. The US has negotiated, and I think the market probably also has dictated, a change in the exchange rate vis-à-vis the yen and the West German mark, which are the really big major competitors of the US. They have the largest trade surpluses with respect to the US and they are the largest competitors with the US producers in non-American markets, in Third World markets and other markets of the world. Therefore, the realignment of those currencies has been extremely important for US producers.

I think what you will see, however, is that the big improvement in the US trade account will come from a reduction of imports, not necessarily from a large expansion of US exports. The reason I say this is that, first of all, in the case of automobiles, where there is a large trade deficit with Japan, I think that will in part be improved by Japanese producers producing in the United States as opposed to importing. In other words, there will be a reduction of Japanese imports of automobiles into the United States, but not because Americans are selling more cars in Japan or anywhere else or because the American-owned companies are selling more cars. You get a reduction of imports because, essentially, Japanese producers faced with that exchange rate and will move onshore into North America.

Mr. Haggerty: But the Japanese are investing capital in these plants here. That is a different story when we talk about free trade, because if I look at that and if I can recall what I read about Ricardo, Malthus and Mill, the point that the economists of that day were driving home was that until you get the value of labour at the same rate, you cannot have free trade. It is that simple, is it not?

Mr. Ashe: No, it is not.

Mr. Haggerty: It is not? Let us get into this, George.

Mr. Chairman: At the time the select committee was in London, the first time and we were listening to the administration officials in the US talk about free trade--

Mr. McFadden: Washington.

Mr. Chairman: It was Washington, yes.

Mr. Ashe: That was a side trip you had.

Mr. Chairman: The US officials were articulating an extremely purist attitude towards free trade negotiations, suggesting that anything less than that would be less than perfect. As Mr. Taylor suggested in dead pan as we sat around the table, that would really upset Ricardo.

0920

Mr. Haggerty: I think they are following in the European style--for example, the European common market. They are following much of that trend that a buck is a buck, even in their dollar value and in their employment and their wages and income. There is some reflection upon that.

Dr. Purchase: It is generally recognized that the appreciation of the US dollar in the early 1980s did have a very serious negative effect on US exports and increased the Japanese inroads into the United States market. I believe that a reversal of that exchange will eventually result in improvement in the US trade balance, as does Secretary Baker, who negotiated those changes with the United States last September.

It is true that in the early stages of these exchange rate changes, if you have a depreciation, most economists will predict that at the beginning there will be a deterioration of the trade balance rather than an immediate improvement. Over the long haul, however, there will be improvement.

The other side of this, however, is that Japan and West Germany added together are not the only or even necessarily the most important countries with which the United States does trade. As you know, Canada ranks very high in this, and there has been no depreciation of the US dollar with respect to Canada; in fact, there has been the reverse over the past few years. Therefore, they can expect no improvement vis-à-vis us on the trade balance with respect to exchange rate changes. The same is true of Taiwan and Korea, although they are now negotiating about exchange rates with those countries.

The Third World has had no change. The United States is a large exporter to the Third World, and there has been no improvement in economic performance and no change in exchange rates that would be of any benefit to Americans in those markets. Therefore, it is going to be a long and slow process of getting an improvement in the US trade balance.

Even with these exchange rate realignments, we are still going to find that the US trade deficit will not go away very quickly. Therefore, I suspect that the politics that surround the deficit will not go away either. Indeed, all the forecasts are that they have been heightened and that we will see some new omnibus trade legislation in the United States in 1987.

I none the less will stick to my forecast that the US trade deficit will be improved next year from what it is this year. It still will be large and frightening to many people, but it will be better than it was in the current

year. There was a setback in the numbers in November, but many people believed this was because importers rushed to import goods in 1986 to avoid the imposition of the new surtax that Congress imposed at the beginning of 1987, so there was a deterioration.

As well, the oil prices in 1986 were extraordinarily low, so low that if you were at all a competent investor, you would have bought oil at the time. If you look at the US imports of oil, they went way up in 1986 so that a large part of that deficit represents a huge increase in oil imports, which I am sure is just being stored because it is as good as oil in the ground except you have to pay the costs of storage.

I do not think you will see that effect in 1987, unless it is again anticipated that the price of oil is much too low in relation to what it would be, and then you may get some prebuying again. My view is that this probably will not be as important a factor in 1987 as it was in 1986. Again, that would result in a reduction in the imports in the US. It will be tough for Americans to start selling a lot more around the world but I do think they are going to have a reduction of imports for the reasons I mentioned.

Mr. McFadden: Vis-à-vis what you were saying, do we have any idea of the percentage of the deficit that would be tied up in unusual things in the past year? I am referring, first, to storage of oil, which is something that I was not aware was happening. Perhaps it might be hard to prove, but it makes some sense.

The other one was the exports from Japan that essentially have been going at prices that show no profit on the part of Japanese suppliers, in order to maintain market share. They cannot go on with that indefinitely. They can go on for a while but eventually they are going to have to stop doing that. I am sure that is happening with other suppliers in other parts of the world.

I am wondering whether we might see this coming year, as you have suggested, some adjustment in the deficit. You suggested it could be in the magnitude of some \$40 billion, from \$170 billion to \$130 billion.

Dr. Purchase: That may be a bit optimistic, but it could be in there. Other forecasters are talking about from \$170 billion to \$150 billion. I am hoping it will be more than that. I was a little surprised that it was as high as \$170 billion in the first place, again, because there were some extraordinary factors that you could not know for sure.

You did not know there was going to be the import surcharge, the 0.22 per cent surcharge on all imports, to pay for customs or the user pay movement in the US. That did cause some prebuying, which we could not forecast. Few people knew it was going to happen. The oil thing did lead to a deterioration.

In regard to your point about the tactics in the market where the Japanese or the West Germans or any other exporters to the US decide to maintain market share notwithstanding the fact that they are no longer making any money. That is a very important factor on why you do not get immediate reductions in imports. They do not raise their prices to reflect the higher cost.

Eventually, there are two options for them: either they go on losing money or they decide to produce domestically. This is my point about moving onshore and why I think you are going to get a reduction of imports more than you are going to see a big increase in US exports.

American competitors, American-owned companies, if you like, are not necessarily going to recapture the market share they lost to the Japanese when the exchange rate went up. What is going to happen is the Japanese are going to keep that beachhead, the expansion of what they have in each of those markets, and they are going to move their plants onshore to supply it.

There will be losers in terms of North American-owned companies. They will have lost out to the Japanese-owned companies or the West German-owned companies or Sweden or any other country that is now investing in the US and taking advantage of the exchange rate situation. In terms of the trade numbers, the US will be importing less than before. The nationality, the ultimate ownership of the people producing the goods in the US will have changed.

Mr. McFadden: I know the auto sector is an example of that, where they are setting up domestically in the US and in Canada. What other sectors have we been able to pinpoint that are following that trend whereby Japanese or other foreign manufacturers set up in the US to ensure that they maintain a market there?

Dr. Purchase: Autos is a big one. John, do you have an example?

Mr. Hoicka: First, on the subject of autos, recently Honda announced in the US that it also would start building engines and transmissions and so forth in much larger quantities. They are talking about a local labour content of about 66 per cent by 1990. I am not sure whether that 66 per cent--this was in a newspaper article--is equivalent to the kind of thing we are talking about under the auto pact but it is a significant increase in parts production by a major auto company.

0930

Second is steel. There is a joint venture with one of the major US steel companies and a Korean company in California that was set in place about a year ago. National Steel, which is a medium-sized steel company in the US, is now 50-50 owned with a Japanese company, and the indications are that it will take a much larger share in the relatively near future. Those are two industries.

The third industry, and again we are dealing with very spotty evidence, but General Electric buys a large number of colour televisions from a major corporation in Japan. Quite recently, in the past few days--I have been giving just colloquial examples because I do not think anybody has done a study and said this and this and this--the major contract has not been renewed because the Japanese were not prepared to continue to take the losses they were making on the colour television sets. The implication is that RCA, which is owned by GE, is likely to rethink its planned decision to close down its colour television production facilities in the US.

There are a large number of colloquial examples in answer to your question. I have a couple more examples: ICI in the United Kingdom is buying into Glidden paints and Honson in the UK is buying into chemicals. There are a whole series of these colloquial examples of changes at the margin.

The reason it takes a long time to establish exactly what is happening is it would appear, as Dr. Purchase has said, that once you have established market share, it takes quite a time to develop, implement and market a company's strategic plan to maintain that market share. They do not take a

short-term move such as increased prices until they have determined the long-term move that is going to help them (a) make a profit and (b) maintain that larger market share. There are a series of specific examples starting across the water. Certainly, in the next year, we will see quite a few examples along those lines.

Dr. Purchase: This is an excellent question. One of the things that is clearly happening is there is a lot more foreign interest in investment in North America. We have had the example of autos, but there are other examples. There is no reason to believe that autos are a unique case, although they do dominate the trade situation between the US and Japan.

Other European companies are coming to North America as well for the same kind of reason, concern over the exchange rates which have changed now. They have a market share they want to protect. There is protectionism in the US which is an added incentive to make sure that you get behind any barriers and diminish the potential for being hit with that.

We probably should know a great deal more about the corporate strategies of the companies involved. Do they feel they have to invest in North America? Where would they like to locate? That kind of analysis should be done but there is an enormous pressure on them to come. Obviously, when these pressures exist, now is the time to do something about it.

It was reported recently that the Japanese have changed their opinion about investment in Canada. They are now, having regarded it as a terrible place to invest, regarding it as a great place to invest. That is partly because things have changed for them as well as for us. It is worthy of further investigation, not only with respect to Japan and the types of firms and companies that may be interested in moving to North America but also with respect to other major capital exporting countries or major multinationals.

We will see this thing continuing to take place. Recently, there was an article in the Harvard Business Review, saying most businessmen now believe that the important investment is in the market rather than in the production facilities. What you worry about is keeping the market and spending money to keep that market. Sometimes that means making losses, which the Japanese did in the early stages of their entry into North America, but they got a toehold in North America and, later on when things improved, they were able to make lots of money.

I understand it is very difficult for North American companies to have quite the same incentive structure because they are being watched so carefully from quarter to quarter, in terms of their profit performance, that they may be unwilling to sustain losses for any length of time to maintain a market share. This is one of the criticisms that has been applied sometimes to North American companies.

Mr. McFadden: I want to make one final point in that regard. It seems to me the American market has reached such a size that in itself it is valuable to be part of it, rather than being part of an overall global market in bits and pieces. The market is so large it is worth holding and investing in, even if you have to invest within the US to hold that market.

In the past six weeks, I have talked to three different Canadian-owned companies that now either have made a decision to locate production in the US or are about to do so. They are not closing in Canada but they are determined not to lose their American market. They are so worried about the uncertainties

that have been created over the past couple years that they are setting up manufacturing in the US to service the American market. I can name three right now I have spoken to, and they say there are others.

I am curious to know whether my discussions are typical or whether you feel there are a number of other companies, and it might be a bit of a trend for companies, if they feel they are going to lose their American market, to locate production facilities there to hold it.

Dr. Purchase: I think that fear of US protectionism, the uncertainty created by that fear, can have an impact on location decisions, especially if you are producing for export to the US. This is the imbalance that the federal negotiators are trying to address in respect of trade negotiations with the US, the imbalance being the uncertainty that is accepted if you decide to put a plant in Canada, with 20 per cent of production for the domestic market and 80 per cent for the US market.

Conversely, if you put it in the US, you have 80 per cent for the domestic market and 20 per cent for export. In one case, you have 80 percent at political risk and in the other case, you have only 20 per cent. Clearly, if you are trying to minimize risks and you think those risks are very large, then you may be encouraged to go to the US.

This is a whole new form of trade. There is no literature on this subject. To my knowledge, no formal economics have ever been done on this subject, but I am sure it is real and it does enter into decisions. It is one of the things that is uppermost in the mind of Ambassador Reisman.

I understand it is a central concern of the government of Canada in the trade negotiations and one of the reasons that they talk about insisting on some change in the US contingency protection, some cap, some bracketing of all that governmental machinery which induces some uncertainty with respect to whether you will be hit by protectionist measures.

I do not know of any more specific examples, but it is an element. I do not want to overplay it in the sense of making it seem more important than it is, but I do think it is there. To my knowledge, I can say it is one of the primary motivators for the federal position on the trade negotiations.

0940

Mr. Hoicka: I think there are positive reasons for these changes as well. Particularly in the past ten years, there has been a substantial change in perspective of many manufacturers in Ontario who ten years ago might have regarded themselves as Canadian manufacturers.

Many of them now, in part because of increasing exports in many sectors to the US and increasing imports from the US and other countries, perceive themselves as being in the North American market rather than in the Canadian market. In many cases, the decision they would have made ten years ago would have been based on the question, "How do I service my Canadian clients when I also have a little bit of exports in the US?" Now they perceive themselves as North American businessmen and the question they are asking themselves is, "How do I position myself so I maximize my North American market?" In some cases, the market is even broader than that.

It is not all a negative situation. I think that also relates very strongly to the real change in perceptions in business between ten years ago

and now towards questions such as free trade, fair trade and so forth. They consider it much more a reality in their lives that they have to deal in a broader market than Canada in many industries.

Dr. Purchase: The reality of having to deal with governments is also taken more seriously by most corporations now.

The question raised by Mr. Ashe obviously leads to all this discussion. There are huge things going on here and they do relate to issues of exchange rate and corporate strategies and dealing with these things. They flow out into the response of governments to these things. The narrow answer is that I do believe the US dollar depreciation will result in some improvements for the reasons we mentioned. I also believe correspondingly that the depreciated Canadian dollar has benefited Ontario's competitive position, as we pointed out.

There is a whole other set of concerns. There are some economists who, based on the experience of Britain, for example, do not believe you can gain any permanent competitive advantage by currency depreciation, that when a currency depreciates, if you have a high import content into the economy, import prices go up and the consumer price index goes up, that gets built into wages and you wind up right back where you started. You are in a vicious circle.

There was no doubt that was and still is an overriding concern to most central banks. They are loath to let the currency depreciate because of their concern about domestic inflation. It has not seemed to be as important in the international economy of the 1980s as it was in the 1960s. I think it does have a positive impact but I am aware that in different times it may not.

Mr. Chairman: I have questions from Mr. Mackenzie and Mr. Haggerty, I presume on Mr. Ashe's question.

Mr. Haggerty: I am just following on. This started with a supplementary to my question, then Mr. Ashe got in one and came back. I wanted to make sure I did not lose track of my what-d'you-call-it. I wanted to make sure that you understood it was a supplementary question by Mr. McFadden to my question and then Mr. Ashe got in on it. Go ahead, Mr. Mackenzie.

Mr. Mackenzie: I lost some of the original exchange of Mr. Ashe's question other than the exchange rate, but two things struck me as you were responding to Mr. McFadden. One was the comment about the economics of moving Canadian industrial production facilities to the US being central to the trade discussions.

I have a little difficulty understanding how that situation is central to the arguments they are making for free trade. It seems to me it only compounds a situation we already have. Without total protection from countervail or future protectionist moves in the US, which we are not likely to get, any Canadian company that is able to move on this leap of faith and enter into this big US market is very likely to set up production facilities closer to the domestic market.

The argument we already have had raised with us is that a hell of a lot of branch plants in this country, American ones in particular, that have excess capacity in the US will not see any reason under an agreement to maintain those facilities in this country. Rationalization alone says they can use the excess facilities in their own plants. It seems to me that it is an

argument against the talks. How do you see it as being central to Reisman's pitch? I am missing it somehow or other.

Dr. Purchase: It is a different tack than we have seen traditionally in the arguments about free trade between Canada and United States where there was concern, as you well know, about a movement of plants down to the US if they could import duty free into Canada. Those were the concerns in the 1970s and certainly in the 1960s when the first investigations were launched into the behaviour of multinational corporations. Prior to that time, no one thought they were any different from any other corporations. We recognize now, or at least some economists do, that there are differences.

The new argument is related to the phenomenon of US protectionism. The new element, as the argument goes, is the much more activist role of Congress in trade legislation, for which it has ultimate constitutional authority. They are no longer interested in letting the President handle it himself, giving him all the leeway he wishes. They now are more active.

Mr. Mackenzie, as we discussed last time, the huge transformation of the US economy, the disappearance of the middle class, the loss of jobs in a lot of heavy manufacturing and the enormous impact on certain regions of the US has produced a politics that is wholly different from the politics of earlier periods when the US never had to worry about free trade because it was always ahead of everybody else anyway.

Confronted with this new politics of protectionism in the US, the arguments for free trade now tend to be more, "We have to find a way to contain those politics," as opposed to, "Let us reduce this tariff," or, "It would be good for the economy to do it." It is a different kind of thing. There now is concern more about the response of the government of the US and the impact of that response on investment decisions by businessmen than about the impact of tariffs and such things.

Mr. Mackenzie: You do not think the politics are likely to make them say, "Because of the politics of it, perhaps we had better not let some of these branch plants of ours move south." I find it difficult to think that is realistic in the face of a rationalization that says, "We have the capacity in our head office plant and now we have an open border."

Dr. Purchase: I point out the arguments that lead one to the position of--

0950

Mr. Mackenzie: I do not want to sidetrack us but I think it is what we have been discussing here. The important thing is the comments in response to one of Mr. McFadden's remarks--maybe it was yours initially--that we are seeing more Japanese investment in the parts or the makeup of the automobile. That is going to change some of the strategy and planning arrangements.

Without pretty clear government direction, how realistic is it to expect public access and government access and planning access to the corporate plans of companies that are going to be investing here? I say that because in past years the practice has been that most major companies were not very willing to divulge many of their plans on future facilities and expansion as general public information, yet it seems to me that some government and public input into the economic planning that goes on in investment in new plants is absolutely essential. It certainly is in terms of areas of high unemployment

or other problems we have. How much is the government likely to insist on sharing in some of the corporate planning information?

Dr. Purchase: I cannot answer that question for the government. Knowing something about the corporation's own strategy and what it believes it is trying to do is useful in any negotiations between the government or the officials of the government and the officials of the company. That is an essential part if you want to deal with them and minimize the costs of persuading them to locate in this jurisdiction as opposed to another, or of just persuading them to locate in this jurisdiction.

Mr. Mackenzie: It is another side of the argument on justification. As companies rationalize and close down plants, how much justification are you going to have?

Dr. Purchase: The other side of that is knowing something about how they view the world. Of course, when they share this information with you they are not very happy about having it shared with the general public, for the reason that their competitors would then know what they were planning to do. If they felt they were going to give you the information, and by virtue of sharing it with the public or with large numbers of people you were going to give it to their competitors, I am sure they would be encouraged not to tell you the truth.

I do not know that you would be any further ahead to require that. I do agree that you need to know a great deal about multinational corporations and the way in which they see the world for the government to negotiate successfully with them. They will and do share some information about their corporate strategy. There are many magazines that write about the corporate strategies of different companies. There are companies that are in the business of attempting to divine the corporate strategies of major companies because the competitors of those companies are interested in what their competitors are up to. It is a fascinating area of economics and there is an interface with public policy.

Mr. Mackenzie: I have a final question. I am wondering whether there is any way we can get a handle on just how much of a threat there is in letting the competition know more in terms of the economic plans and industrial development of different companies. I have not seen an update on it, but I recall sitting down with the Swedish labour authorities a number of years ago to go over how they were dealing with plant closures. I think it was at the time of our plant closures committee. As I understood the system, the country was split into seven labour zones and the companies there had to lay out their plans--I do not know whether it was updated annually or every couple of years--for five- and ten-year periods in terms of future development, rationalization and modernization of plant. That information was always on file and was a very valuable tools in retraining or moving workers from one labour district to another.

I would like to get a handle on just how much that is actually done or whether that is still the policy. It seems to me this indicates that there is not a hell of a lot to be lost by the old argument, "We might let our competitors know something." If this information is public on a national basis, as I think it used to be there, and is updated on a regular basis, then everybody knows who has major plans for retraction or contraction or expansion or what have you. Is it possible to get--

Dr. Purchase: I can investigate whether we can get that information from Sweden.

Mr. Chairman: Did you have a comment on it?

Dr. Purchase: No.

Mr. Chairman: I want to remind the members of the committee that we are dealing with Mr. Ashe's question on page 3 of the Barbara Cotton memo of December 15, which is going to be redistributed to you in a moment, which is, "Why does Treasury think a depreciated Canadian dollar will help the Ontario economy?" There are other questions we have to deal with in the next 36 minutes, including the outlook for northern Ontario and sectors, etc., so please bear that in mind with your questions.

Mr. Haggerty: To get back to the matter of foreign investment, as this goes around the table this morning and with what you read in the papers, I have a concern. I share some of Mr. Mackenzie's concern in this area. I will have to go back and read the book on Lester Pearson. I think he flagged something in this area, that you want to make sure you do not lose your sovereignty, that you do not lose the right to govern the country when you have multinational corporations and foreign investment coming in.

For example, picturing investment in this province in the automobile sector, particularly by Japan, I am beginning to wonder whether we are being used purposely to get into the American market. Protectionist policy in the US seems to be reinforced day by day. In this global partnership, the Americans are afraid of just what loss there is going to be to their economy in employment if these multinational corporations come in with investments and say, "We are going to buy into your plants." It is frightening without somebody here being a watchdog.

Here in Ontario and in Canada, we are going to have to sharpen our pencils. I do not think we are any match to bargain with the US in trade policy on free trade right now. One of you gentlemen mentioned that it is great to talk about free trade, but it has to be fair trade. We could lose everything here, our sovereignty in particular. If we are going to be run by multinational corporations, you can elect all the people you want but you will call the shots. They can leave you with a depressed area and move some place else where they think it will generate more profit.

One of the interesting things you find in Japan is that their business climate is that government, industry and labour seem to be partners, so whatever they do there, when they move their wealth here, much of it goes back there and those people are well looked after.

Dr. Purchase: In our previous discussion, we touched on the point you made at the beginning of your statement. Global strategy for corporations clearly involves a strategy of how to deal with governments and the relationships among those governments. If you are a major corporation in Japan, you think about not only how you will deal with the government of Canada and the US, but also how you will deal with the relationship between the government of Canada and the government of the US. Every major corporation must be thinking about these issues because politics are so very important to the investment decisions they are making, which is one of the things we have alluded to in many different ways here.

There is a great deal that still needs to be known about the global strategies of major multinational corporations. The more we know, the more governments will be in a position to deal with them on a reasonably equitable negotiating basis. Regarding the concern about domination by multinationals, I

think there are different behaviour patterns to a global corporation than there are to a purely national corporation. They have more options, for one thing.

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To some degree, and this is my personal view and my own analysis, the government's negotiating position is enhanced in respect to multinational corporations if it has more than one in the particular industry it is dealing with. They have to think about what their competitors might do, and whether they have more than one nationality. There is a diversity of multinationals, which have different nationalities, and there are different corporations involved. This improves your bargaining position. If you have only one and it dominates, then it is in a much stronger bargaining position than you are as a government in dealing with it. It has many options and you have few.

You recognize the need for foreign investment often because it brings technology and capital and creates jobs in many ways. At the same time, it brings other issues to the public policy agenda as to the nature of economic activity that takes place, as to sovereignty, if you like. Therefore you have to strengthen your negotiating position vis-à-vis those companies.

One possible way is to encourage the diversity of the corporations you are dealing with. Then they have to worry about each other and a different set of government issues as well, in terms of each one being, in a sense, an extension of the government of its own country, not entirely, but to some degree.

That is my off-the-top response to that issue. I am not sure one can say, "Gee, I wish this all would go away." I do not believe it will. You have to struggle constantly to improve your negotiating status vis-à-vis these very powerful organizations.

Mr. Ferraro: I have a couple of specific questions pertaining to the response to questions raised that we received. Dr. Purchase, I do not know if you have the document in front of you on the first page of which we have the forecast accuracy. That was one of the questions I asked. I am no statistician or mathematician but you have the average absolute forecast error in employment in millions. That is explained down below but the chart makes it look as if it is an 11 per cent variance, which it is not; it is 0.2 per cent. It is 11,000 people but it looks like 11 per cent on the chart.

Dr. Purchase: I see. Okay. It is 11,000 people.

Mr. Ferraro: It is a 0.2 per cent variance, as you indicate down below, but anybody reading that chart is going to ask, "What the hell is going on?"

Dr. Purchase: I apologize for confusing you.

Mr. Ferraro: That is okay. Maybe it is just me you confused.

Dr. Purchase: No, I am often confused by these charts.

Mr. Chairman: I was confused, perhaps not for as long as you, Mr. Ferraro, but I was confused momentarily when I read that too.

Mr. Ashe: A colleague of yours.

Mr. Chairman: Until I read the comments underneath.

Mr. Ferraro: Thank you, Mr. Chairman, for that vote of confidence. I would be a hell of a lot more worried and concerned if you were not a member of the same party. I want you to know that.

Having said all that, not to be discouraged any further, let me say, first, there is a remarkable degree of accuracy here. I suspected a much broader variance, to be quite honest, considering the fluctuation in the economy, particularly in the past four or five years. It is nice to know that you guys are a hell of a lot smarter than perhaps even I thought originally.

Dr. Purchase: I do not mean to interrupt you, but I would not say we are smarter. We may be luckier.

Mr. Ferraro: I think you are being modest, Dr. Purchase.

The other question I think I asked, although I do not want to say I was unique in asking it, pertained to the interest rate fluctuation and what effect oil and gas had. I see the references and I see there is a specific response dealing with the financial sector but, in my view, there is no direct response to how fluctuations in the price of oil and gas would funnel their way down and affect the consumer and the economy in the form of interest rates. I suspect it is a very difficult thing to follow. Is that fair?

Dr. Purchase: I know we had this discussion last time. This was a response to certain questions that were put to us in a fairly formal way, but if you would like a written response, we can tell you more about the impact of oil and gas price decreases or increases on the Ontario economy. I can also give you estimates of the impact of sustained interest rate changes on the Ontario economy.

Mr. Ferraro: I would like that personally. Not being an economist per se, I think the things most average Ontarians and Canadians pay attention to are interest rates and what the hell happens in the price of oil and gas. There are others, but those appear to be the predominant ones on people's minds.

The final question deals with the response on how important the financial services sector has been to Ontario's growth. You indicate it was exceptionally good on average from 1975 to 1980 and kind of rotten, to be blunt, from 1980 to 1985, comparatively.

I do not want to put words in your mouth, but when one considers how interest rates deviated negatively for the most part during 1980 and 1985, reaching as high as 22 per cent during one period, and then you indicate that sector was below the other service sector accomplishments, is it a safe assumption to say that interest rates probably have the greatest effect on employment?

Dr. Purchase: I am not sure I would make that statement along the line of reasoning you have. There is no question that interest rates or, if you like, the price of capital have a profound effect on the level of economic activity and in the short run can have a very detrimental effect on employment growth.

For example, I would argue that the 1982 recession and the depth of that recession were in large part caused by the enormous increase in what I call

inflation-adjusted interest rates. In other words, if you take the interest rate and take away the rate of inflation, you get the real rate of interest.

We have a chart in our forecast that shows the real rate of interest went up enormously in the period starting in 1979 and that by 1982, as you recall, I believe even normal rates were up around 21 per cent. There is no question that in that short-run period it did lead to the worst recession we have had since the Great Depression.

However, economies are enormously flexible and adjustable things, notwithstanding the pain they are sometimes subjected to in the short run. You will notice the economy recovered even though real interest rates remained at a high level and indeed went up a bit. If you move a price, especially one as important as the price of capital, interest rates, the short-run effect will be quite dramatic. In the long run, people adjust to that level and you can recover and go on.

1010

Mr. Ferraro: I guess the frequency of fluctuations is every bit as bad.

Dr. Purchase: This fluctuation, movement all over the place, is extremely important to the performance of the economy in the short run.

Mr. Ferraro: Let me conclude with this question. I appreciate that many of the variables and things you study are all interactive; they have a reaction to this, an effect on that and so forth. Can you attribute one major reason we either do very poorly or very well from an economic standpoint, or is it damned near impossible?

Dr. Purchase: It will always be related to one of three things: the price of energy, the price of capital or the price of labour. There is always something going wrong with one of them. Ultimately, that is very often related --and this is truly a personal view--to some major change in government policy somewhere in the world. I think economic policy has a great deal more to do with the performance of the economy, for better or for worse, than most people appreciate. Many things that happen in the North American economy in the 1980s have to do with the Reagan "revolution," which was as much a revolution of economics and economic policy in the United States as anything else. In my view, what you see now, both good and bad, in large part is a response of the economy to major changes in public policy.

Mr. Ashe: I have a brief supplementary that goes back to the last three questions from Mr. Ferraro relating to interest rates.

Does the Ministry of Treasury and Economics do anything in advance in anticipation of the improbable but always possible reaction by the federal government's directions to the Bank of Canada? Today--it happens to be treasury bill day--they said, "We are going to drop the interest rates two to two and a half per cent today." This is probably the more appropriate range they traditionally used to be in before the phenomenon you just referred to happened. Can you predict what that kind of action would do to the dollar? Obviously, it would go down--I do not think there is any doubt about that--but is there any correlation of numbers? In view of Treasury, would that be beneficial to the Ontario economy, again considering the amount of our economy that is export based?

Dr. Purchase: Yes, we do have a capacity to model that kind of thing; what would happen if interest rates were to be lowered by any percentage you wish. We can answer the question of what the effects will be on the exchange rate and on various other parts of the economy in terms of growth rates.

The answer to whether or not I believe it would be beneficial is more complicated because it is inviting me, in a sense, to comment on current federal government policy with respect to the exchange rate and interest rates. I would say there would be more employment and more economic activity as a result of a decline in interest rates, even one that was forced. The models would show some increase in prices as a result of that because import prices would go up at the very least from the exchange rate depreciation. Whether it would ultimately be to the benefit of the Canadian economy is perhaps more debatable. We can certainly tell you what the results of the models would be. Also, our exchange rate is also someone else's and they might have something to say about it as well. For example, the Americans might be concerned about a depreciation of the Canadian dollar, notwithstanding that we would argue our interest rates should be lower than they are. Similarly, other countries might also have something to say about the exchange rate.

I can give you the answers on what the effect would be. In fact, we recently published a paper that came about it in a slightly different way. We talked about the effect of an exchange appreciation. We got that appreciation by jacking up Canadian interest rates and sustaining them higher than the US rates. You can reverse these things and do it the other way.

Mr. Ashe: Even at this time, do we not have about the highest interest rates in the western world for an economy such as ours? Is it one of the highest?

Dr. Purchase: Yes. In real terms it is fairly high. It is certainly higher than in the US. We have a fairly large gap, although I notice it has narrowed a bit recently. In historical terms, the gap between short-term interest rates in Canada and the US is large.

As you know, early last year that gap was in the order of five percentage points, which is unbelievable. I think it had a negative effect. This is an issue that was raised here in Ontario a number of times back in the early 1980s. More recently, it has been on the minds of people in other provinces a great deal, because at this stage they are looking for any kind of relief for their economies. They raised it at the last conference of first ministers or at one of the premiers' conferences. Other provinces often talk to the federal government about this issue.

They are a little less concerned about exchange depreciation because resource industries will clearly benefit almost right away from exchange depreciation. They are immediately more competitive in the world market.

Mr. Chairman: The next issue we asked you to look at was northern Ontario. We asked whether you had done any forecasting on questions relating to plant shutdowns, etc.

Dr. Purchase: We do not forecast regional unemployment rates or regional numbers. We stay up to date with the current numbers, but we do not forecast them for a couple of reasons.

One is that we do not have enough numbers. Our models require quite a

large amount of information and we simply do not have those numbers. They are not collected on a regional basis. The numbers we have at a regional level are not statistically reliable because there is such a small sample. The model might give an answer, but no one can put even a minimal amount of credibility to the numbers you get out of it. That is why we do not do that kind of forecasting.

We monitor in detail all current statistics in communities and industries where we can get numbers of a current nature. We have a lot of information about regions and we certainly do a lot of work on that, but we do not try to model formally and to forecast the unemployment rate for the various regions of Ontario.

We do not have that forecast capability, largely because we do not have the numbers. It is also because modelling this is extremely difficult since we have no way of knowing, for example, the imports into or exports from a region of the province or even of tracking movements of people between regions. There is no way to do that. In other words, we do not have forecasts, but we do have a lot of information that is useful in making policy decisions with respect to regions. We know that the unemployment rate is much higher in the north than in other parts of the country, for example, and that it has deteriorated in relative terms since the early 1980s.

1020

Mr. Chairman: Looking at one specific problem, perhaps the Kimberly-Clark situation, you are monitoring that, I take it.

Dr. Purchase: Yes, we monitor all such things. There is a constant demand for briefing material on anything that happens in the economy. With a plant closure or a community that may be suffering from an unusual, adverse economic circumstance, we muster a lot of material on each of these things as they arrive, but we do not try to forecast what will happen.

On the other hand, given enough resources, one could probably do almost anything. I think we can track the future of certain industries that are intimately related to the future of certain communities. There is a way you could get a better handle on some of those things.

When you are thinking about the north, a large part of it has to do with the future of mining in its various components, or the future of forestry and the various forest and wood products industries. You can do that kind of analysis and to some degree we do it. I do not say we do it as well as we might, but we are working to improve our ability to do that.

Mr. Chairman: Do you have any facilities for determining substitution employment creation in areas in the north that are dependent on primary industry?

Dr. Purchase: These questions related to how to get diversification of economic activity, how to get simply more economic activity in various regions, are major public policy issues and a major technical problem in economics. There are thousands of bureaucrats in Canada looking at this problem of how to get regional economic development. It is not only an issue in the north but also all over the country.

Many theories have been put forward. Some relate to the so-called building on strengths, where you invest more heavily in the things you already

do or you try to upgrade resources, say, and produce downstream products; you fabricate or process the raw resource in some way. Others look at what is imported into a community and say, "Could we produce that here?"

The net result of all this has been that regional problems have not gone away. I am not sure they will go away, but a great deal of work can be done on attempting to identify new industries in which we can diversify. I am personally very much interested in this. There have been a lot of easy, off-the-top-of-the-head answers to this, and I think more effort can be put into the analysis of what industries allow the best prospects of entry, given the current circumstances in any one region.

Different industries have different barriers to entry and different barriers to growth. It is an analysis of each industry and the things it requires to be a successful competitor in that industry that I think has to be undertaken. In my view, this has never been undertaken in any systematic way in this country, notwithstanding, as I say, many thousands of bureaucrats and the great interest of everyone to try to do it.

Incidentally, that is not to denigrate any of my colleagues or myself for not having done this to date, but it is something yet to be done and an issue everyone is interested in.

Mr. Chairman: This would require a lot of communication with other ministries too?

Dr. Purchase: Yes, a great deal of communication. It requires a certain change in the thought processes, if you like, some radicalization almost of the way in which we think about these things. For example--and this has to do with Mr. Mackenzie's questions as well--the easy answer on this thing is that you should build on your strengths. Who is going to deny you should do that? That often means you get more deeply involved in what you are already doing, and there may be big problems with what you are already doing. To get more deeply involved in them may not be what you want to do.

For example, the Japanese are very good at going around the world encouraging countries to add to their production capacity in certain raw materials and so forth. That is often a very attractive thing, because if you have a raw material, you want to build a plant to get it out of the ground and perhaps to process it and so forth. That adds enormously to the total capacity of industry in the world and may well result, and in fact often does result, in a much stronger bargaining position for the Japanese, the ultimate consumers of such products, in getting lower prices. You are right back almost where you started. You have added the capacity. It looked like a good deal, but then suddenly there are collapsed prices on a worldwide basis.

To some degree that simple answer, "Let us build on our strengths," which is to do more of what we are doing, may not always be the best thing. I do not deny that it sometimes is.

Mr. Mackenzie: Is it because of the fear of identifying winners and losers or of being put in a position of having to try to identify winners and losers that we have not done some of this?

Dr. Purchase: That is also a question often thrown at people who believe this is possible. It is almost as though if you say you are going to identify winners and losers, it can never be done. I am not personally sure it can never be done.

There are those who believe the capital markets, as they exist and with many different players, can do it best, but capital markets also have their biases. They are decision-makers. Sometimes capital markets themselves are just very large institutions that have bureaucrats working in them making such decisions.

I do not think it is always straightforward that you cannot possibly pick winners and losers. Many people believe now that more and more governments are involved in this, for better or for worse, so you have to get involved. Certainly, that is the growing view in the United States, that the Japanese were successful because the government was involved, so perhaps the US government should be involved.

Mr. Mackenzie: I do not mean it in the context that you cannot necessarily pick them; I mean it in the context that you have to face the problems identifying winners, and losers in particular, gives you.

Dr. Purchase: Yes. To say someone is a loser is obviously not the greatest politics in the world and, I am sure, results in mistakes. Mistakes are made all the time about who will be a winner and who will be a loser. One of the things that happens is that one resource the governments can always bring to a problem is money; therefore, it is usually opted for as the first solution. It may not be what is wrong, but it is certainly the easiest thing to do.

When we talk about diversification, the thing we try most often is tourism, mainly because it is relatively easy for small amounts of capital, in relative terms, to enter, although more and more we have the large destination resorts that require large amounts of capital and so forth. Tourism has often been one of the things people have tried. In the future, we might do more. I am sure there must be more industries where entry is equally possible. For reasons of not having done enough homework, we do not have that information available to us, so they are not being brought forward to decision-makers about where to go.

1030

In terms of Mr. Mackenzie's question about upgrading primary resources, that is a very laudable thing to do. Again, you have to look at whether the barriers of entry into the upgrading part are such that it may not make as much sense as doing something else.

The other thing to remember is that it depends on your objective. If your objective is to make the economy of the north more stable, you may not want to build on the existing resource base because that will increase the amount of economic activity in the north, but it will be subject to the same cyclical fluctuations. Again, I think all these things are worth trying. We probably should spend more time identifying industries where there are low barriers to entry and where governments can be helpful in getting the regions of the Ontario economy involved in those industries.

I would make one other point. We often choose the things that are most difficult to enter. One of the classic cases is the heavy water plant, which did not provide a lot of employment but sure cost a lot of money. It is a very high-technology thing and there are very few purchasers of heavy water. They have to use a certain technology, which happens to be peculiarly Canadian in many respects.

In retrospect, it is easy to say these types of decisions are obviously wrong. I do not know how they come about. For an industry that has very high barriers to entry, both technical and financial, it is beyond me why we would start with that. I think you would be looking for something perhaps more modest, but if you do enough modest things on a large scale, you have something going.

Mr. Chairman: Thank you very much. The motion that was passed earlier this morning dictates that we must conclude this discussion now. I should remind the members of the committee there are some other questions on pages 3 and 4 that we have not dealt with very thoroughly. Is it the desire of the committee to have Dr. Purchase come back another time?

Mr. Mackenzie: I would prefer it, but I do not know what his schedule is.

Mr. Haggerty: I have some new questions for him.

Mr. Chairman: Yes. We could go on ad infinitum. Would you be prepared to come back, possibly next week?

Dr. Purchase: Yes, certainly. I am at your disposal.

Mr. Chairman: We appreciate that very much. I believe you have copies of the two resolutions that are before us now. You may wish to stay to hear the debate on that.

Dr. Purchase: I might just be interested in hearing the debate on that. I should also mention, Mr. Chairman, taking only a second, that we have completed the work on a number of questions we were asked and we will be tabling them within the next week. Maybe we can look at them.

Mr. Chairman: Thank you. We appreciate very much the very thorough co-operation we are receiving from the Treasury in all this.

As to the two resolutions that have been proffered, chronologically, I received a copy of Mr. Haggerty's yesterday, and I think there was some consultation with the clerk yesterday. My inclination, subject to the wishes of the committee, would be to look at Mr. Haggerty's first. Does that make sense to the committee?

Mr. Ashe: I have no problem with your reasoning on why we should deal with that first. That is fine. As we are dealing with the issue, I hope we think of both and, before we even have to get to a vote, maybe the committee can collectively end up with the one it feels is more appropriate to the situation. As you can see, I drafted mine with no other input; so there is no expertise in there other than my own limited amount.

I should point out what may or may not be a valid consideration, particularly to members of the committee who belong to other parties. When you consider my and my seconder's party affiliation and the condemnation, if you will, of the similar party, it may have some more weight in that regard. I am not talking about the semantics I have used, but I will just leave that for the deliberations of the committee.

Mr. Chairman: That is a valid comment.

Mr. Ramsay: Quite delicious.

Mr. Chairman: That is not the chair's view; it is simply Mr. Ramsay's view.

Mr. McFadden: When we dealt with the resolution on plant closures, we reached an agreement essentially on how it was going to be worded, rather than a succession of resolutions. Might we be able to come up with a similar understanding here rather than, for example, passing two resolutions saying similar things? We would probably all agree to both resolutions and get them both through here. That is fine with me, but could we not get one committee resolution rather than two?

Mr. Haggerty: The committee is most agreeable to resolving a problem. As I look at the two motions before me, I see they have similar qualities. I have used the word "unconscionable" in describing the decision of the federal government. That may have rubbed somebody the wrong way; I hope not. They are similar in nature, and we want to come up with a joint resolution and to move forward in this committee. The decision of the federal government to move in the area of banking policies is of concern to all of us.

I have no objection to it. We can work out a motion that is acceptable to all of us.

Mr. Chairman: Do you have a comment on Mr. Ashe's comment that, because of party affiliation, his resolution may be more significant?

Mr. Ashe: I did not say better-worded. That is all. I want to clarify that.

Mr. Haggerty: I hope that when we are here in committee we can forget about party affiliation. We are here to resolve the issues and to make recommendations to the Legislature. I hope we can be as nonpartisan as possible.

David and I can go out and redraft a resolution that will be compatible to all of us.

Mr. Chairman: It sounds as if you are all saying both of them are. Is there anything you want to incorporate into your resolution? Because of the chronology of receiving them, the chair is at the moment saying your resolution is on the floor. Is there anything you wish to incorporate into yours that is not in it?

The clerk tells me it has not been read into the record as of yet. Would you like to do so?

Mr. Haggerty: We can put both into the record and then work from there with them.

Mr. Chairman: Mr. Haggerty moves that the standing committee on finance and economic affairs consider the urgency to entertain further hearings regarding financial institutions, their performance and service provided in Ontario's economic environment, in particular, to the unconscionable decision of the federal government to exclude the city of Toronto in federal legislation as an international banking centre.

The adverse effects of this decision will have serious consequences on Ontario's economic viability in fair competitive practices, unless tax laws change to permit free activities for financial institution locales in Toronto.

Mr. Mackenzie: I think both resolutions are trying to get at the same subject. My difficulty with Mr. Haggerty's resolution is that I am not sure he does not diffuse it a little by calling before us "the urgency to entertain further hearings regarding financial institutions." That is not the specific issue. That is one of the things this committee has been charged with and one of the things we have been doing for some time. The immediate problem is the rejection of Toronto as an international banking centre, and that is what I think the total focus of this resolution should be.

1040

Mr. Haggerty: Just speaking to Mr. Mackenzie's comments, the committee is dealing with financial institutions. I understand that some banking institutions want to appear before the committee and that we have had to defer that because of the rest of the work load we have had. I hoped we would move ahead and get their comments immediately.

Mr. Ashe: There was a suggestion a few moments ago to put our resolution officially on the record. Having heard Mr. Mackenzie's comment a moment ago, I think this motion takes care of his comment.

I move, seconded by Mr. McFadden, that the standing committee on finance and economic affairs indicate its strong support for the inclusion of Toronto in any federal legislation to designate Canadian locations for tax exempt, or partially exempt, international banking centres; and, further, that the committee forthwith investigate in a manner deemed appropriate the implications for Toronto and this province of any federal legislation that fails to recognize Toronto in said legislation.

In the view of this committee, failing to recognize the well earned high stature of Toronto in the eyes of the world financial community would be inappropriate and unacceptable.

Mr. Mackenzie: We have a procedural problem here.

Mr. Chairman: Yes. We have a procedural problem in that Mr. Haggerty's motion is on the floor. For the purposes of the record, it was valuable to have you read that over so--

Mr. Ashe: Yes. I think somebody suggested before that should be done.

Mr. McFadden: May I suggest, as a procedural thing, that we go on record at the outset to see whether we have agreement on the principal thrust of this? If we have, maybe we can adjourn for a few minutes to work out a mutually agreeable resolution. If we cannot, we will just come back and deal with them in succession. I do not think it would take that long, and we could have all this done by 11:30 a.m. when Mr. Ashe has to leave. Would that be agreeable to the committee?

Mr. Haggerty: We might even want to include Mr. Mackenzie. I have no objection to it. I realize the urgency of this matter and I want to make sure the committee moves forward. That is all. We could do it right here. I am not going to quibble over one or two words, but there is an urgency that we should be discussing.

Mr. Chairman: Am I hearing a consensus on the principle that there is an urgency on this issue and that a resolution of this sort should be passed?

Mr. Ashe: Yes.

Mr. Chairman: Mr. Haggerty, Mr. McFadden is asking that there be a short adjournment so there can be three-party input into the final resolution. Is that agreeable to you, or do you want to stay on the record for everything?

Mr. Haggerty: My motion is there to be discussed, and I am sure Mr. Ashe's is too, so now we can come up with a resolution that is agreeable to us all.

Mr. Chairman: Mr. McFadden, are you proposing an adjournment at this time?

Mr. McFadden: We should adjourn. I do not think it is possible to redraft everything in committee like this. You have to sit down for a few minutes and try to put these two together and then come back to the committee with a resolution that is agreeable to everybody.

Mr. Chairman: Are you proposing an adjournment then?

Mr. McFadden: Yes, I will move an adjournment for a few minutes.

Mr. Chairman: A recess.

Mr. McFadden: Pardon me, a recess for a brief time so we can complete a drafting of the consensus resolution to go to the Legislature.

Mr. Chairman: Members of the committee have been handed a packet of information on this subject that may be of some help. I draw your attention particularly to Mr. Radwanski's comments which are contained in the Ontario Study of the Service Sector which was released just a few weeks ago. His resolution number 30 is included in your packet. Can we have a discussion on Mr. McFadden's request for a recess for a few minutes?

Mr. Ashe: His reads something like mine. I did not see it in advance, believe me.

Mr. Chairman: Are we ready for a vote on that? All in favour?
Carried.

The committee recessed at 10:40 a.m.

1103

Mr. Chairman: We are back on the record. Mr. Haggerty, your motion is still on the floor.

Mr. Haggerty: I wish to withdraw my motion.

Mr. Chairman: I understand, Mr. Ashe, that you have a new motion.

Mr. Ashe: I would like to withdraw a previous motion I read into the record. I want to move, seconded by Mr. Haggerty, the following resolution, which will be read by my colleague Mr. McFadden.

Mr. Chairman: The drum roll please.

Mr. McFadden: For the record, I think we should indicate that this

resolution was drafted by all party members here today. It was agreed to in the drafting stage and represents a consensus of all members of the committee. It reads as follows:

"That the finance and economic affairs indicate our strong support"--

Clerk of the Committee: Committee.

Mr. McFadden: Perhaps we will make a slight amendment on that: "That the committee"--

Clerk of the Committee: Standing committee on finance and economic affairs.

Interjection.

Mr. Ashe: I am sorry, Mr. Chairman, but I disagree. It is very important that we identify ourselves in the body of the resolution.

Mr. Chairman: Mr. Ashe moves that the standing committee on finance and economic affairs indicate its strong support for the inclusion of Toronto in any federal legislation to designate Canadian locations as tax exempt, or partially exempt, international banking centres.

The proposal of the federal government to exclude Toronto in federal legislation to create international banking centres, would be ill advised and potentially highly damaging to the economy of Toronto and the province.

The committee should forthwith commence hearings to investigate the potentially serious consequences of the federal government's proposal.

Mr. McFadden: That is the content of the resolution as discussed.

Mr. Chairman: I see Mr. Mackenzie's hand. Mr. Ashe, it is your resolution. Do you have an opening comment?

Mr. Ashe: I think it is very important, as indicated by Mr. McFadden, that this resolution indicates the feelings of the committee. Ultimately, I think we will see, in a unanimous way, the making of the resolution in a consensus format to indicate how strongly we collectively feel about the proposed intentions of the federal government. In our view, as is indicated by the resolution, it is inappropriate, to put it in its mildest terms.

As we are talking in a very nebulous way, however, I think there is the collective feeling--and it sure is mine--that the committee should try to come up with something more educated in terms of the apparently implied negative impact on not only Toronto in its broadest sense but also Ontario.

One of the other things that is not in the resolution per se, but that is in the minds of many of the commentators, expert and otherwise, I have had occasion to hear in the past couple of days, is the feeling of many of those educated commentators that Canada will also look rather foolish in the eyes of the international banking community throughout the world. I do not think Canada, Ontario or Toronto needs any of those.

I hope we will be able, in a more educated way, in the next few weeks, to put some meat on the bones, so to speak, by hearing from people who are

more knowledgeable than ourselves of the implications to which we are making general reference today.

I have heard no one addressing the issue, even in the most conciliatory way, suggest there would not be negative implications. I guess the only disagreement is on the amount and degree of the consequences.

1110

Mr. Chairman: Mr. Haggerty, as seconder, do you have any comments you wish to make at this time?

Mr. Haggerty: No. I am concerned about the urgency with which we should get on with our hearings.

Mr. Mackenzie: I want to make it clear that I believe there is unanimous support for this resolution, but I want to make it equally clear that it does not necessarily indicate support for the idea of international exemptions for these kinds of banking centres, as far as I am concerned.

My concern is that this is a method to bring about further tax breaks that will profit the banks and maybe many of the big corporations, but there is no guarantee whatsoever that it is going to produce any additional jobs in this country, and I have some grave reservations about it.

However, given the status of Toronto and Ontario as the major trading part of our country, I also think you simply cannot allow the federal government to make such a move that includes the other two major cities, Montreal and Vancouver, and excludes Toronto when Ontario is the centre of much of our financial empire.

My concern is the resolution dealing with the exclusion, and the final paragraph. Maybe we can find out in the hearings what the benefits are, and I am talking not only about the benefits in the way of tax breaks to the banks or corporations but also about whether they can tell us this is going to have any effect in terms of jobs. I have some serious doubts that they can.

Mr. Ferraro: I join my colleagues in endorsing the resolution, which will be unanimous, saying that, historically, Toronto has been the financial capital for Canada and will remain so, all things being considered.

Mr. Chairman: Recently.

Mr. Mackenzie: Historically, it has been Montreal.

Mr. Ferraro: Pardon me, you are right. Montreal was at one time, but in the past few years, Toronto has replaced Montreal. The exclusion of Toronto makes about as much sense as trying to sell snow to the Eskimos.

As indicated by Mr. Ashe, the signals the international financial communities would be getting would be not only confusing but also deleterious, to say the least, for potential investment, in Ontario and in Canada. Where would they go? Vancouver? Montreal? They have some base already in Toronto, some connections. It is absolutely ridiculous to consider such designations and to exclude Toronto.

In conclusion, I have a lot of sympathy for the position of the federal Tory members who live in Ontario, if this exclusion becomes a reality. It is absolutely, totally absurd.

Mr. Chairman: Mr. Winegard, you can go back to the academic world.

Mr. McFadden: I find the federal proposal illogical and impractical when you analyse what has been happening in this country for the past twenty years in the whole financial services sector. Toronto has steadily developed as a banking centre, both nationally and internationally. It has developed a level of expertise that is of international calibre.

When people think about Canada and financial services, they think first about Toronto. It makes sense, therefore, that if the federal government is doing anything to enhance Canada's presence in international financial circles--you build on strength, and surely you would build on the centre where you have an established record of experience and expertise.

Further to that, I cannot imagine anything more confusing to the world markets than to get into a situation where we are going to go from having no international banking centres to having three, or two, certainly more than one.

Someone was mentioning earlier on that, if you look at other countries around the world, it would be hard to visualize that if Britain were to create an international banking centre, it would designate Edinburgh and Manchester and leave out the city of London. It would be absolutely illogical and foolish. The British government would never consider it.

If we are going to go ahead and create international banking centres, Toronto should be one of them. My question concerns the advisability of creating them. We should investigate that and see the impact of doing it. If there is an economic benefit to Canada in doing it, Toronto should be one of the centres.

I have been told, and it has appeared in newspaper and magazine reports, that the creation of international banking centres will have little or no impact and is not of great importance one way or another. If it is of no importance, why are we doing it? I have to assume somebody is convinced this will have some real impact on the financial services sector.

I am certainly not in favour and I do not think any member of this committee is in favour of denigrating either Vancouver or Montreal in any way. At the same time, one has to assume this decision is going to have some impact. Presumably, if it is going to have a positive impact on Montreal or Vancouver, the exclusion of Toronto is going to have an impact on Toronto. The logic clearly indicates that.

It is incumbent on this committee to try to determine the impact, if any, this decision is going to have or could have if it is made. If there is no economic impact, then the proposal is basically a nullity and a waste of our time and a waste of the time of the federal government in even proposing it, but I have to assume it is having an impact. That should be investigated.

Mr. Mackenzie: You have to distinguish between economic and job impact. It can have an economic impact in terms of increased profits without having any impact on jobs.

Mr. McFadden: We do not know exactly what is involved in the proposal. That is one of the dangers we are running into right now, and that is why we have to get on with the hearings immediately. There is a proposal about it in the federal budget.

Various international banking centres, such as the Cayman Islands and places like that, have been cited. They do not seem to have a lot of relationship to Toronto, Montreal or Vancouver in terms of how we are organized. I would not compare our banking centres to tax havens around the world, so I am wondering about the impact. That is something that has to be investigated. Right now, we are basically swinging at shadows and smoke.

To try to get to the bottom of it, we should try to get in here knowledgeable people from the financial services sector, the Canadian Bankers' Association and the banks, trust companies, investment dealers and so on. In the interim, I hope the federal government sees fit to postpone any final decision until there has been further study of the implications; of the advisability of having them at all, but also what the impact will be.

The potential loss of image and position and the confusion that could be created in international banking circles could be quite damaging to Toronto and Ontario, but I argue the confusion is also potentially damaging to Canada generally. That is something we have to investigate and we should get on with it.

Mr. Ferraro: I am surprised Halifax is not screaming for it.

Mr. McFadden: That may be next.

Mr. Chairman: Apropos your comments, I understand Britain has declared certain cities to be international ports for the purposes of clearing customs.

Mr. McFadden: As has the United States.

Mr. Chairman: Some of those cities have been designated for political reasons and are being ignored, but Britain has included its two major ports, Southampton and Liverpool, and the advantages are accruing in that area.

Mr. Ferraro: The United States has as well, particularly the state of Florida.

Mr. Chairman: Is there any other discussion on this? Are we ready for a vote?

All those in favour? The vote is carried unanimously.

What do you wish me to do with this resolution? Do you wish me to report this to the House this afternoon?

1120

Mr. Ashe: Yes.

Mr. Chairman: Mr. Mackenzie moves that we make arrangements to hear from some members of the financial community.

Motion agreed to.

Mr. Chairman: With regard to these hearings, we must bear in mind that we are interspersing these with the other hearings with regard to the budget, which we hope to keep on schedule. You are receiving in your offices

copies of materials which are being formally tabled as of today. They are being received in response to the advertisement.

I wonder whether the committee would be prepared to leave it up to the chairman to designate the scheduling, bearing in mind that the committee has very strongly indicated to the chairman that this is an urgent issue?

Mr. Mackenzie: Might I also suggest that you consider the Minister of Finance as one of the people who might appear before this committee.

Mr. Chairman: That is all right.

Mr. Ferraro: Why do we not get the Prime Minister?

Mr. Ashe: On your request for flexibility, I concur with that, frankly, because if we end up with a morning when potential people cannot be here, somebody else could be fitted in rather than wasting it. I agree to that extent. However, as you have indicated, this is really the first priority, because hesitation may indicate a lack of interest and concern. As you know--and we are all politicians--sometimes the best way to get rid of a problem is to do it quickly, and we want to be ahead of that possibility. In my view--and it may not be shared by my colleagues--this is the first priority wherever possible in a flexible schedule. We will leave it that way.

Mr. Mackenzie: Can the clerk get a copy of this resolution we have passed and distribute it to the members as quickly as possible?

Mr. Chairman: Perhaps we could distribute that to all members of the Legislature this afternoon.

Mr. Ferraro: Notwithstanding the fact that we will probably get a rejection from the Minister of Finance, we should also get a potential rejection from the Minister of State for Finance, under whose auspices I think it directly relates.

Mr. Chairman: Mr. Hockin?

Mr. Ferraro: I am prejudging the reaction.

Mr. Chairman: The other person I was going to suggest is Mr. Blenkarn. It is worth hearing his views on this matter as well. He was a very engaging person the last time he was here, and I would like him to come back to give us the benefit of his views.

Mr. Ashe: We have heard him before.

Mr. Chairman: I have a list here: Mr. Wilson; Mr. Hockin; Mr. Blenkarn; F.G. Hamilton, president of the Metro Toronto Board of Trade; Mr. Radwanski, the author of the Ontario Study on the Service Sector; Mr. Lavelle; Mr. MacIntosh, the president of the Canadian Banker's Association; Mr. Eggleton, the mayor of Toronto; and Mr. Beck, chairman of the Ontario Securities Commission, who raised the subject earlier with us.

Mr. Ferraro: I am wondering whether somebody like B. R. Wilson, chairman of the Ontario Chamber of Commerce, would be appropriate as well?

Interjections.

Mr. Chairman: Mr. Flynn, the Metro chairman. I think we are a little light.

Mr. Mackenzie: I am not sure how far you want to go, but if you are going to broaden it out to the chairman of the Ontario Chamber of Commerce, then it is incumbent that you also include an invitation to the Ontario Federation of Labour or the Canadian Labour Congress, or both.

Mr. Chairman: All right. Any particular names, Mr. Mackenzie?

Mr. Mackenzie: I would direct it to the directors: Gord Wilson and Shirley Carr.

Mr. Ferraro: Also the Consumers' Association of Canada.

Mr. Ashe: We are going to get so far that we are going to take until the next session starts. All these are fine. I have no great disagreement with any of the names per se, but I really think that if we sincerely want to get to the actual possible implications, we want the experts rather than other politicians. We can put out all the rhetoric without hearing from the Metro chairman or the mayor of Toronto. They are going to give the same rhetoric we do. We want to hear the facts.

Mr. Chairman: I think it is particularly important also to hear anybody who is in favour of this.

Mr. Ashe: I have not heard of anybody.

Mr. Chairman: Mr. Wilson.

Mr. McFadden: It seems to me the one thing that is singularly lacking in that invitation is people from the banks, the financial area and international banking who would perhaps understand what this is all about. Mr. McIntosh is the only one from that sector. We should really be out hunting for people not only from the Canadian banks but also from the international banks to try to find out what impact this has had in other places in the world and what impact it would have in terms of their operations here.

Rather than trying to settle that list this morning, I think we should investigate knowledgeable people in Toronto right now, not only from Canada but also from other parts of the world who are now resident here, who could come here and give us some expert testimony on what the implications are and what the implications have been for other places that have done this.

Mr. Mackenzie: You have made your case, and I agree with Mr. McFadden on that. Broadening the list a bit to look at that kind of witness makes sense.

Mr. Ferraro: I do not disagree at all. I think it is necessary. But let us not also forget that these financial institutions have large investments and representative bodies and institutions right across Canada. Are they, in essence, going to put all their eggs in one basket and say that Toronto is--

Mr. Cordiano: I think Mr. McFadden is saying we should get people who are expert in international banking, not necessarily--

Mr. Chairman: That is right.

Mr. Ferraro: I am referring specifically to the banking representatives.

Mr. Chairman: I think Mr. McFadden is saying international banking, Mr. Cordiano.

Mr. Cordiano: I do not think that is so. That is two strikes. Right, Mr. Ferraro?

Mr. Ferraro: Is he on our side?

Mr. Chairman: You are saying the international banking community and the extent to which the banking community is interested in investing here. In that regard, the agent general in London has indicated he has received a number of inquiries about what this means. It might be interesting to find somebody, if somebody is available. I am not necessarily suggesting bringing somebody from another country.

Mr. Ferraro: That might not be possible.

Mr. Ashe: I will go over and get them.

Mr. Ferraro: Most banks in Canada are international bankers.

Mr. Chairman: Yes, but they have a bias against other banks coming into this country.

Mr. Ferraro: There is no question.

Mr. McFadden: Mr. Ferraro, this is aimed at getting people from other countries here. What we have to figure out is, if they are coming from other countries, what is it they are looking for here? What is the advantage, and what advantages are there for Canada to have that happening?

Mr. Ferraro: I agree with you.

Mr. Chairman: I think I have a good understanding of what the committee is saying in this regard. We will issue invitations forthwith.

Clerk of the Committee: For next week?

Mr. Chairman: Perhaps for next week. It looks as if we have a full agenda for next week as well.

Mr. Ferraro: One final thing, Mr. Chairman. Can we possibly get a copy of the specific proposal?

Interjection: Federally.

Mr. Ferraro: The federal proposals.

Mr. Chairman: You have the budget speech, and I think it is in the package you have been given.

Mr. Bond: There is the budget speech, and there is a federal document entitled Canada as an International Banking Centre.

Mr. Chairman: Is there any other business? No.

The committee adjourned at 11:28 a.m.

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25
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Classification
Markings

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

INTERNATIONAL BANKING CENTRES

THURSDAY, JANUARY 22, 1987



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LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 22, 1987

The committee met at 9:08 a.m. in committee room 1.

INTERNATIONAL BANKING CENTRES

Mr. Chairman: Perhaps we can get started this morning. You have your agenda in front of you. We should add to that agenda the motion by the member for Port Arthur (Mr. Foulds) which was presented to me before Christmas and which I alluded to last week, to the effect that we should begin our meetings at 10 o'clock instead of nine o'clock in the morning.

Mr. Mackenzie: It is not essential, but I wonder whether it is possible to deal with that during the break today rather than now, simply because all the northern members of our caucus are in a special meeting.

Mr. Chairman: Certainly. Mr. Foulds will be here later this morning, but I am not sure when we should deal with it--I am in the committee's hands--in view of the fact that we have a schedule of guests this morning.

The first guest is Professor Donald Brean. He is a finance and economics professor at the faculty of management studies at the University of Toronto. We appreciate your coming on short notice, Professor Brean. I believe you have some information that will assist us in understanding this problem and perhaps in deciding what we should do about it. Perhaps you could carry on. If you are prepared to answer some questions when you are finished, we would appreciate it.

DR. DONALD BREAN

Dr. Brean: I am prepared to answer some questions after a few brief comments. I was pleased to be invited to address your committee, and I agree with the chairman that I had relatively short notice. Nevertheless, the points I have to make were points that I had strong convictions about even before being invited to address this committee.

I must also admit right off the bat that I have been given quite free rein with respect to what aspects of international banking centres I should discuss and I have intentionally limited myself, despite the suggestion in the invitation that I was free to touch on virtually any aspect of the issue.

I come to this issue as a financial economist who has considered many aspects of international finance and tax questions in the past. At various points in my studies and in working with governments, I have been required to think of the issue of international financial centres--international banking facilities, as they are sometimes called--and their role in the international financial system.

I have also thought in terms of the impact of a policy to explicitly encourage such centres in the economy that takes such an initiative. There is some experience, as I am sure you are aware, in the United States that we may be able to allude to as this discussion goes on this morning.

First, I would like to point out to the committee that the existence of international financial centres or international banking facilities is something that has evolved in relatively modern times as a result of the very rapid evolution of the so-called offshore financial markets of the world, commonly referred to as the Euromarkets.

These are markets in which financial transactions take place outside the country in which the transaction is denominated. In other words, there are Eurodollar markets in which loans, deposits or other forms of financial transactions take place in dollars but outside the United States, outside the regulations and taxation generally imposed by the US on its citizens and institutions.

The Euromarkets themselves were created or spurred to their development, in large part, by policies within the US that were perhaps strongest in the late 1960s and early 1970s, policies which encouraged US investors with foreign investments to finance those investments with funds derived abroad. The world was awash with US dollars, and markets for financial transactions in US dollars outside the US were seen to be very profitable, particularly by US banks.

The Euromarkets themselves are what financial economists would recognize to be quintessentially the most efficient markets around, in that they are the least restricted of all markets. They deal with a very easily stored, rapidly transported, very fungible commodity--money--and the flow of such capital tends to respond very rapidly to very small interventions or additional costs, such as taxes or restrictions.

Indeed, the Euromarkets themselves, as I have noted, were created in response to certain types of restrictions such as reserve requirements and certain types of taxes that existed in the US, Federal Deposit Insurance Corp. assessments and, in the US in particular, interest rate ceilings, and such things as the so-called alphabet set of restrictions that are imposed on US banking facilities.

What eventually happened was that the offshore market for international finance sought out arrangements that were subject to the least amount of restriction and the lowest amount of tax. Without going further into the discussion of the evolution of the international financial system, it is important to recognize that banks are in a very strong position to be able to do this, to find, as it were, the least common denominator in terms of taxes or other forms of restriction. That is why such things as tax havens have become very well known in the international financial world. They guarantee or ensure that international financial transactions will be done with a minimum of restriction and a minimum of taxation.

To turn to the question at hand and to deal with the question of whether Canada is well advised to take an explicit policy to encourage international banking facilities, I will suggest right off the bat that I do not think there is a great deal of merit in the policy for Canadian financial institutions and for the Canadian economy, primarily because the international business conducted by Canadian banks is currently done, for all practical purposes, on a tax-free basis.

Canadian banks do not pay tax of any serious magnitude on the international financial business they carry out around the world. Consequently, any policy by Canadian legislatures to change restrictions and taxes that are imposed on Canadian banks in an effort to draw that

international financial activity back into Canada would not create a substantially new and attractive set of incentives for the international activity of Canadian banks or for foreign banks because they are already operating in an environment that is virtually free of restrictions and free of taxes.

If Canada were to take an initiative to create international banking facilities, it would in a sense be competing with the Cayman Islands, the Bahamas, the Netherlands Antilles, the Channel Islands and other sorts of places that are clearly recognized to be tax havens, or some of the other international centres, such as Hong Kong, Tokyo and Singapore, which are establishing themselves as international financial centres and have certain advantages in terms of where they are located in the world.

Canada would probably not do a great deal to the allocation of the real business activity associated with international finance because what we see going on through the tax havens or through other international banking facilities is the booking of loans, the booking of transactions.

The booking of transactions, saying where they are located on the corporate books, the bank books, is a matter that does not require a great deal of onsite labour. To repeat, the product we are dealing with is easily transportable, indeed transportable at the speed of light, and is very fungible. To say that it is booked in one place or another is not a very difficult task for a bank to do. Banks will order their affairs in that way to minimize the effects of taxation or regulation, should such things happen.

0920

In short, what really would happen if international banking facilities were created in Canada is that we might see some increase in the volume of bookings that takes place within our borders. There is some experience in the US to substantiate this.

In December 1981, international banking facilities were introduced in the US, and the statistics indicate that there were no substantial increases in labour associated with the banking business and no discernible increase in the volume of international activity undertaken by the American banks or the foreign banks that already had offices in the US. There is some discernible shift of the location of the bookings. For all practical purposes, this has no economic significance.

There is no major economic consequence of creating international banking facilities if they are defined to be facilities which separate the offshore activities of domestic banks and the domestic activities of domestic banks. In other words, if offshore banking facilities are clearly defined to be separate from domestic monetary and financial activity, they are simply allowing banks to book things in a local place as opposed to some otherwise convenient offshore facility.

My other point is a basic point in finance and economics that I expect is well understood, although sometimes what I read in the press, as spoken by the strong proponents of international banking facilities, makes me wonder whether the point is clearly understood. There is no direct connection between the location of the bookings of international loans and deposits and the more economically relevant international pattern of trade and investment.

If a particular location in Canada should become an international

banking facility, and even if there should be a dramatic increase in the volume of international loans and deposits booked in that location, there is no connection between that and the level of investment in the form of bricks and mortar or the total volume of labour required to service in that particular locality.

If there were, you would see very substantial real investment in such places as the Cayman Islands or the Netherlands Antilles. If one looks to induce reinvestment in business other than simply by an expansion of the volume of bookings, one is not very likely to find that through a policy of creating international banking facilities.

Those are my basic comments. I believe the thrust of what I have to say has been included in those comments. I also refer the committee to the work by Mr. Rasminsky and Mr. Lawson, a report to the Department of Finance in March 1986 which dealt with Canada as an international banking centre. In the Rasminsky-Lawson report, I believe it is fair to say they came to essentially the same types of conclusions as I have attempted to make this morning, perhaps in a somewhat more strident fashion.

Mr. Chairman: Thank you. I have questions from Mr. Mackenzie, Mr. Ferraro, Mr. Ashe, Mr. McFadden and Mr. Haggerty.

Mr. Mackenzie: If Canadian banks are not paying taxes on international business now and there is no tangible benefit in terms of increased labour, and if the international banking centres are really not tax havens, what are they other than, it appears to me, just a way to get around otherwise legitimate national interests, whether right or wrong, in terms of avoiding taxes or finding ways of doing business without paying whatever--I say national--any government may have as a policy? To me, it is just a fancy means of getting around the policies of a national government. Am I dead wrong?

Dr. Brean: No. You are not dead wrong. I believe it is a question of interpretation. One might think of the types of arguments that were developed when the American international banking facilities were developed in the late 1970s and the early 1980s. With respect to the restrictions on national banking, such as reserve requirements--a thing of the past--interest rate ceilings and other types of deposit insurance assessments or, in the Canadian case, various types of withholding taxes, if those domestic impositions which serve a national purpose are imposed or attempted to be imposed on the international banking facilities of domestic banks, there are endless ways, strictly within the law, in which the banks are able to avoid those.

That is the first point. If those domestic impositions were attempted to be put on the international business, the international business would be pushed further offshore into the existing international banking facilities or the tax havens.

As I indicated, the international financial markets are operating now in a restrictionless, regulationless, taxless environment for which margins that are extracted by the banking facilities are extremely small. It is a very competitive international market. Domestic impositions would simply push business away from that domestic environment.

I go back to your question of why a nation would consider creating such an international banking facility. There are a couple of reasons. There are the misconceptions that to bring offshore banking activity back to the local

economy may bring with it the more substantial types of investment, or it may have some bearing on the cost of capital. Those are nonstarters and are not relevant.

Equally, the question of increasing labour is an argument that has been made, but I believe has to be dismissed, because there is not a great deal of onsite labour associated with where loans are booked, as I have mentioned. There may be some efficiencies. You would reduce a certain amount of the inconvenience of doing the business offshore at some geographic distance, although I am not contradicting what I said before. That geographic distance is not very important in international banking terms, but there may be some very small efficiencies that could be gained.

In the New York experience, there is really nothing that has changed in international banking, other than the total amount of bookings that are done there. International banking facilities do not create substantial advantages for international banks. It has not kept tax havens and other longer-standing international banking facilities from staying in operation.

0930

Mr. Mackenzie: It would be a fair comment then to say that it would be an asset and a means whereby international business, multinational corporations and major corporations can do business around the world as cheaply as possible--

Dr. Brean: Yes.

Mr. Mackenzie: --and obviously at the cost of any national interest if there was no tax involved in this whatsoever. One way or another, people are going to pick up the cost of the additional freedom that is there for the international community to do its banking.

Dr. Brean: I am not quite sure--

Mr. Mackenzie: It is hard to get away from it, with the presentation you have made to us. What other real benefits are there of what we have in the way of international banking facilities now that you can show is a national gain?

Mr. Foulds: And who are the benefits to?

Mr. Mackenzie: And who are the benefits to?

Dr. Brean: Of creating an international banking facility within our borders?

Mr. Mackenzie: That and on a broader basis.

Dr. Brean: Okay, on a broader basis, what are the economic benefits of international banking centres around the world? The fact that they exist around the world?

Interjection: Right.

Dr. Brean: In turn, that would get you into the discussion of what are the advantages of tax havens, for which one can make a strong argument.

The point is that such facilities are an integral part of the international banking system and international financial system, which is essentially without regulation and without taxation. Therefore, what you have is that the prices involved in international financial transactions--essentially the spread between what money is borrowed at and what it is loaned at--is as small as competitive market forces would allow it to be.

We know that taxes and regulations and other forms of impositions, while they may be justified to a certain extent in terms of certain national priorities--and it is a national prerogative always to be able to impose such impositions or taxes--in an economic sense the market will produce whatever it is producing and, in this case, it is international banking services and capital at lowest market cost if there are no impositions.

The facts of the international financial world are that there is a very competitive market out there.

Mr. Mackenzie: I understand that, but we have the argument, increasingly valid in the world today, that there are a hell of a lot of corporations that have more clout than governments. I am talking about multilateral and international corporations now. What we are doing just adds to the power they have. The downside seems to be that they effectively can get around any national interests in the way of taxation.

Dr. Brean: And they have been able to for a long time.

Mr. Mackenzie: And have been able to for a long time. That is why I say somebody is picking up the cost of that.

Dr. Brean: No. I do not agree with that because you are suggesting that there is a cost there in the first place, that there is an avoidance of some national policy that wants to be implemented and that, I would suggest, would create its own costs.

Mr. Mackenzie: It may very well be, but also the tax exemptions are means of not paying the costs that might be necessary for national programs. The more you can free up your capital on an international or a multinational corporation basis to move around the world in a transaction and get money as cheaply as possible, the less money is going to be available in terms of any tax policies on a national basis.

Mr. Foulds: We have a floating crap game.

Dr. Brean: I have no problem admitting to the fact that if one regulation, imposition or intervention was introduced in a national economy to achieve some honourable purpose, that it can be avoided. I have no problem with agreeing to that at all.

Mr. Chairman: Because we have so many questioners, I think we should move on to Mr. Ferraro, but before I do, I should point out to members of the committee that we received in our packet last week the report from Rasminsky and Lawson. It was a report issued by the Department of Finance federally shortly after the last budget in which they concluded, amongst other things, that they believe the Canadian efforts to develop into an international banking centre would meet intense competition from existing centres and from other places with a potential as great as ours and that it would be unwise to force the issue by vigorous tax competition. This is to force the issue.

Mr. Ferraro: I have three questions for Professor Brean.

First, you said essentially that Canadian banks operate on a tax-free basis now--

Dr. Brean: On the international scene.

Mr. Ferraro: On the international scene.

Dr. Brean: I think the evidence also indicates on their national transactions they do not pay a great deal of tax.

Mr. Ferraro: Fair enough. By Canadian banks, you mean Canadian chartered banks? You are not excluding federal banks that have come into the country?

Dr. Brean: Yes.

Mr. Ferraro: Any bank operating under charter in Canada has that same privilege?

Dr. Brean: Yes.

Mr. Ferraro: I am a little confused then, and perhaps you can enlighten me. You alluded to it briefly. What advantages would a corporation or individual have, for example, in going to the Cayman Islands or the Antilles, or is there any difference?

Dr. Brean: The reason they go to the Cayman Islands and Netherlands Antilles, or book offshore is to set up their affairs outside of--

Mr. Ferraro: Confidentiality.

Dr. Brean: Not just confidentiality. In the setting up of their business offshore--and you have to look at it in its historical perspective--they are to some extent avoiding domestic taxes by keeping their activity offshore and not bringing it back. A lot of banking is done through the international branch system as opposed to subsidiaries. It immediately falls within the income figure for the bank as a whole.

By booking in the Netherlands Antilles or the Cayman Islands, the international banks are able, for example, to match revenues to other types of taxes that may be imposed by other nations, such as withholding taxes. If there was a tax liability imposed in the form of withholding tax on one transaction, and income is reported back when it comes back to Canada, the tax credit is given in Canada, which eliminates the effect of that to begin with. Also, the various types of restrictions and impositions that might be imposed on domestic banking are not present when you are banking offshore, and that is one of the primary reasons for setting up branches offshore.

The confidentiality one is not the predominant one. It is primarily the absence of restrictions, reserve requirements and other sorts of things.

Mr. Ferraro: All right. Thank you. That clarifies that.

I am sure you know and many of us have read one of the comments by Rasminsky and Lawson. They say, in essence, that, as you indicated,

designation of an international banking centre will not necessarily generate employment of any substance or any incremental wealth, but may cause taxation revenue losses by encouraging the transfer of banking activities currently booked in Canada. Can you expound on that for me?

Dr. Brean: Where is this?

Mr. Ferraro: This was in a report we received from the Ministry of Treasury and Economics. It was compiled by George Radwanski for the Treasurer (Mr. Nixon). It quotes specifically from the Rasminsky and Lawson report.

Dr. Brean: Yes?

Mr. Ferraro: It warned last spring that "this approach may generate little incremental wealth or employment and, instead, it may only cause taxation revenue losses by encouraging the transfer of banking activities currently booked in Canada."

Dr. Brean: At first blush, with all respect to the authors of this report, that may not be an accurate statement. It is hard to say what is accurate because they are trying to prognosticate.

Mr. Ferraro: It did say "may," in fairness.

Dr. Brean: Yes. It seems to me that the transfer of banking activities currently booked in Canada might result in certain domestic financial transactions being booked within the international banking facility that was created within Canada, so that if the domestic banking activity, for which there may be some taxes being paid, got shifted into the international realm, that would create some loss of revenue.

I am trying to interpret that sentence, which I also have before me. I do not think that is really the case. I think international banking facilities can be set up so that there are no links between the international and the domestic banking activities. That is not at all difficult to do. International banking facilities are not physical banking facilities in any sense; they are simply separate sets of books. As long as that whole process is being audited and monitored properly, the international activity and the domestic activity are separate.

0940

My main point is that international banking activities, that which is essentially free of regulation and taxation, would remain so in an international banking facility such as they have in the United States. I do not think there would be any leakage of domestic banking activity into the international realm. That is why I have some problem with that question.

There may be problems with setting up international banking facilities, but that would not be one of the major ones. My problem with international banking facilities is that I do not have any real strong sense of what they do and why one would set them up in the first place.

Mr. Ferraro: Carrying on from that, in essence what you are saying is that the utility of designating a municipality or municipalities as an IBC is subject. Really, there is not a hell of a lot to gain by the designation.

Dr. Brean: And not an awful lot to lose either.

Mr. Ferraro: It begs the question. It was touched on to some degree by Mr. Mackenzie. I want your reaction to two things.

First, in essence, what the government is doing, notwithstanding the fact that the designation may confuse some people in the world banking industry or probably the nonbanking sphere, by giving a designation to some, Vancouver and Montreal in this case, and not to Toronto, is a loss of prestige more than anything else from not having the designation. Is it a matter of pride?

The second part, and perhaps the first part of the question, is, why the hell would it designate, save and except for political purposes, two municipalities, and not Toronto. For that matter, why not include Calgary, Edmonton and Halifax?

Dr. Brean: I will not presume what the--

Mr. Ferraro: I want your opinion without blowing your Senate seat.

Dr. Brean: I think you excluded one of the considerations that I am allowed to consider in this case. It could well be a politically inspired move.

It is illogical to me to assign international banking facility status to Montreal and Vancouver to the exclusion of Toronto. I do not understand what economic or financial reasoning underlies that particular policy.

Let me say, on the other hand, that those doomsdayists in our own city of Toronto who are crying that it will cause us to lose a very substantial amount of international banking activity and labour associated with this industry are equally misguided. I do not think that would happen.

I think that if it became a policy to have Montreal and Vancouver to the exclusion of Toronto assigned international banking facility status, it would send a curious signal to the international banking community. They would be puzzled.

Mr. Ferraro: And to the voters of Ontario.

Dr. Brean: Perhaps to the voters of Ontario as well. It would be curious, particularly--

Mr. Foulds: I would just like to see whether you have political motivations.

Dr. Brean: No. I will go on with that, but it does not get us into financial or economic analysis in any sense.

Mr. Ashe: I guess we are all in the same area, but maybe asking you questions in slightly different ways to try either to clarify or confuse the issue even more, depending on your point of view.

From what you have said, you really see no great pluses at all in the designation of Canada, let alone the narrow designation of naming any two cities with the exclusion of what is now considered the main banking centre in Canada anyway.

Dr. Brean: It clearly is the main banking centre.

Mr. Ashe: Yes. You do not really see any great pluses in declaring Canada as an international banking centre over what we already have, which is effectively to say virtually no taxation on foreign transactions, in any event.

Dr. Brean: I would agree with you.

Mr. Ashe: There are two questions then that come out of that. I guess one is whether there is--and I think you indicated before there was not--I have been hearing in some of the discussions I have had that it really would not make any difference at all to the activities of the Canadian banks, but it could be an attraction to some offshore banks that are already, or maybe in some cases are not, now domiciled somewhere in Canada. If they operate with virtually no taxation, can you discern why there would be that so-called distinction?

Dr. Brean: Why there would be an extra inducement for an offshore bank to move into Canada?

Mr. Ashe: Yes, or for some that are already in Canada, the attraction, in this case, to Vancouver or Montreal over where they may be now.

Dr. Brean: There may be some inducement to book their financial transactions in Vancouver or Montreal. Those that are already established in Toronto--and I believe that most of the type to which you are now referring do have their offices in Toronto--

Mr. Ashe: About 90 per cent, as I understand it.

Dr. Brean: Yes. I do not see anything either in the short or long term that would induce them to move away from where there is essentially an agglomeration of financial expertise and institutional infrastructure as exists now in Canada.

The international offices of the major Canadian banks are here. The foreign banks that have offices in Toronto have most likely been attracted here, not for their international activity but for their Canadian activity. I do not think they will bring their international activity into international banking facilities in Canada. They are primarily concerned with activity of a domestic type in Canada. They want a share of that.

Mr. Ashe: The present Canadian chartered banks, which do a substantial amount of business offshore in terms of, let us call it the traditional type of banking, operate in the Caribbean. The Bank of Nova Scotia, the Royal Bank and the Canadian Imperial Bank of Commerce are probably the three largest in the Caribbean area and, as I understand it, they operate separate divisions of the bank for those operations.

Dr. Brean: Yes.

Mr. Ashe: Would there be any difference in that operation? Mind you, everybody is speculating on what the proposed law will end up being; that is for sure. I have heard of at least one that has given some initial indication to its staff that if the designation goes to Montreal and Vancouver, it will undoubtedly move its operation, in this case to Montreal, probably because it is closer than Vancouver.

Dr. Brean: Yes.

Mr. Ashe: Why is that, if there is, in theory, no financial tax advantage?

Let me go a little bit further. Is there any example in any jurisdiction you are aware of where the creation of a tax haven or an international banking centre has gone even further than to say, "You will not pay tax," and actually gives a tax incentive that can be used to offset some of the profits on domestic banking? Are there any that have gone that far to make it attractive?

950

Dr. Brean: I know of none.

Mr. Ashe: If that was behind it, that would be unique in the world, in your understanding? They would be robbing Peter to pay Paul.

Dr. Brean: Yes. I know of no precedent for that, nor of any other experience. If there were any explicit inducement to go to one place or another, then international banks would respond to that. From what I understand of the thrust of international banking facilities, they are essentially trying to create an environment within the national boundaries that is similar or identical to the environment that already exists if you set up your branch or subsidiary in one of the more traditional places, such as in the Caribbean or in other international banking facilities.

Mr. Ashe: Would it be a safe conclusion that many of the pronouncements to date are a kind of pie in the sky? Believe me, this is not a political statement, although some will take it that way. The pronouncements include those by the Premier (Mr. Peterson) that, if there are tax inducements to create these banking centres to the exclusion of Toronto, then Ontario will, in effect, offset that with tax breaks here. We are talking about nothing to do nothing, for all practical purposes. Is that correct? That seemed to be what you were saying, although not in that same context.

Dr. Brean: That captures essentially what I am saying. You are saying there are counter-policies that would be matched dollar for dollar. I think that is what you are saying.

Mr. Ashe: Nothing matching nothing.

Dr. Brean: Nothing matching nothing.

Mr. Ashe: Thank you.

Mr. Foulds: That was not a political statement. That was a political question.

Mr. McFadden: Professor Brean, I found your remarks interesting. Following on from what Mr. Ashe said, the theme of your speech is that the current debate is much ado about nothing. From what you are describing here today, we are currently involved in acting out a play that really seems to have little impact.

Dr. Brean: Little real impact.

Mr. McFadden: No real impact. What I would like to go over with you is the impacts there might be. You have mentioned minor small efficiencies which would lead to very little job gain. How little is the job gain? Are we talking about hundreds of jobs or one or two?

Dr. Brean: I am in no position to answer that. I would say a very small number, but I would not venture to say what that number would be. I can respond to a number that was suggested by a consultant's report to the mayor of Toronto in terms of the relocation between Toronto and Montreal or Vancouver.

I do not agree with that and I find that number surprisingly large, but I could not estimate the number of clerks who would be moved from here to there and the number of new people who would be required to operate a somewhat larger computer facility. It would be very small. The thing that would change--the number that would be large, as I mentioned before--would be the number on the books that report bookings, in particular, to us.

Mr. McFadden: I guess this is one of the things that is going to be subject to debate, but does small in your terms mean under a hundred or small in terms of under a thousand?

Dr. Brean: I would not put a number on it, Mr. McFadden. I simply do not know. I know the way in which loans can be shifted about with great speed and very little labour, but I cannot anticipate the number of jobs, if any, that would be shifted about. I would require much more time before I would even venture a guess at a specific number.

Mr. McFadden: One of the points I raised in last week's meeting when we first got into this discussion, when we decided to go ahead with hearings, was that I felt the proposal was illogical. You mentioned that word this morning. It does not make a lot of logic in terms of the kind of business you are trying to attract, namely, international business, to confuse the market by not having your major single banking centre included as an international banking centre.

Do you believe that, in terms of Canada's image or Toronto's image, there is some significant symbolic importance that may be worth something and is something we should be concerned about, or do you believe the symbolism is not particularly important either?

Dr. Brean: I do not think the symbolism is overly important. I do think the international financial community would find it puzzling. They would view it, as we have said repeatedly, as an illogical policy. But again, I could not estimate whether the imposition of such a policy would be responded to in any material way.

It seems curious, in the light of policies and policy positions regarding intervention in the economy, to do something that within our own shop is, in a sense, divisive or interventionist of this type. That is the lack of logic in the policy. I would side more with people such as Rasminsky and Lawson who say that, if we were going to introduce the concept of international banking facilities in Canada, we should do it on a national basis, if at all.

Even that has a policy. I am not saying that is a questionable policy. That is not unreasonable, but if we were debating a national international banking facility as a policy, I would question its economic relevance. I would not dismiss it and say it is illogical, but I would not see it as being a matter of major importance in terms of Canada's involvement in international finance. I hope that has not moved too far away from your first question.

To get back to your question explicitly, my view is that the signal is

curious and inconsistent with certain other things that have developed in Canadian policy over the last number of years, but I cannot estimate what that would entail in terms of the impact on international financing.

Mr. Shymko: Could I have a supplementary to Mr. McFadden's question?

Mr. Chairman: I should recognize Mr. Haggerty, because we have only four minutes left on this. If there is time after Mr. Haggerty's question, Mr. Shymko, you may ask a supplementary.

Mr. Shymko: I have to speak in the House. I just want one supplementary, Mr. Haggerty.

Mr. Haggerty: I know what your supplementaries are, and we have other witnesses coming up.

Mr. Shymko: Five seconds.

Mr. Haggerty: I have one quick question here. I will try to be as brief as I can. Professor, you indicated that the tax policy of the Canadian Parliament with regard to the banking institutions has already indicated that there are attractive concessions in the environment. You indicated you could see no reasons why Toronto, Montreal and Vancouver could not be designated as international banking centres for Canada.

The question is, though, if there are all these attractive concessions and the government of the day has already indicated Vancouver and Montreal, is it possible that further tax concessions or bonuses could be given by the government of the day designated for Montreal and Vancouver and omitting Toronto?

Dr. Brean: With respect, Mr. Haggerty, I am not sure I indicated that what you mean by the tax concessions that I suggested are already there.

Mr. Haggerty: You said tax policies are already--that there is an attractive concession in the environment.

Dr. Brean: My point dealing with taxation and international finance is that there is an environment for international banking transactions outside of Canada in the international environment that is free of regulation, free of taxation and free of other forms of intervention.

That is the attractive environment in which Canadian banks find themselves when they do offshore financing, even if it is offshore financing of Canadian industry. Those are the Euromarkets, and the institutional and international banking facilities and existing tax havens are part of the institutional structure of the Euromarkets.

1000

I do not want to confuse that or link that to tax concessions afforded to banks for the domestic banking activity, so I am a little bit concerned when you talk about extra--

Mr. Haggerty: I thought it might well be that if Vancouver and Montreal are designated as the international banking communities here in Canada, there could be further bonuses given to them to go along with the suggestion of these two cities.

Dr. Brean: My view on that generally is that there is not a great deal to defend the policy which isolates particular areas. For all sorts of historical reasons, some areas, such as Toronto, have come to be the base of financial activity. But the policy to allow international banking operations of domestic banks to be outside the set of taxes and regulations imposed on domestic activity is one I would suggest could be national and would not have to be location specific, as I think comments from the committee have indicated as well.

Mr. Mackenzie: There are enough incentives already--

Mr. Shymko: Could I ask my question now?

Mr. Chairman: All right, 15 seconds, Mr. Shymko. Quick.

Mr. Shymko: The Premier has indicated that if worse comes to worst, he will institute fiscal tax measures here in this province.

You had indicated there are four areas of obstacles. You mentioned restriction lists, regulations, taxes and the environment. What measures could we take or would the Premier take if tomorrow we find that the two centres, Vancouver and Montreal, will be designated and Toronto will not. He promises that fiscal tax measures will be taken. Can you give me an example? What is he talking about?

Dr. Brean: I would have to refer you to the Premier on that. I really would not at this time be prepared to indicate--

Mr. Shymko: You said it is much ado about nothing; it is nothing with nothing. Is that the answer, nothing with nothing? Surely the Premier has some intelligence and when he speaks of fiscal tax measures, I assume he knows that there are some measures that could be taken, or is this just an empty political statement?

Mr. Haggerty: No, it is not empty.

Mr. Shymko: Is it totally meaningless, as are most statements by politicians? You are the expert in these areas.

Dr. Brean: I know, but I do not know the options--

Mr. Shymko: You cannot see any.

Dr. Brean: Obviously, I am not fully apprised of the options that the Premier is considering. If you simply want to make a comparison between Vancouver and Montreal, there is probably more scope for Montreal. For example, if Montreal were trying to retaliate against some other city, Quebec, with its taxing powers, would have more scope to do that than, say, British Columbia. That is very much beside the point. I simply do not know what options the Premier would be considering.

Mr. Chairman: Thank you very much, Professor Brean.

Dr. Brean: You are welcome.

Mr. Chairman: You have been very helpful to us. Again, we appreciate your coming here on short notice.

Dr. Brean: My pleasure.

Mr. Chairman: We welcome the next group we have with us this morning, the members of the Ad Hoc Committee on International Banking Centres of the Board of Trade of Metropolitan Toronto. I understand they are here fresh from a trip to Ottawa to make a similar presentation to our sister committee of the House of Commons. Gentlemen, if you would align yourselves in whichever way you wish and perhaps--

Mr. Taylor: Geographically.

Mr. Chairman: --in a geographic sense. The chairman of this ad hoc committee is Ron Robertson and the other two are Pearce Bunting and Gordon Riehl.

Mr. Ashe: They are all right to right rather than right to left.

Mr. Chairman: Right to right. Have a seat, gentlemen. We are now in receipt of your submission, which I take it is identical to the submission you have made to the federal committee. Unlike the federal committee, we give you our undivided attention. We have not invited the Vancouver and Montreal boards of trade to send delegations, although if they wish to come, we will certainly listen to them.

BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Robertson: We appreciate very much having this opportunity to appear. I think you have identified, on my right, Mr. Bunting and, on my left, Gordon Riehl. I know your time is limited, but if we may, we would like to try to state with some clarity the position of the Board of Trade of Metropolitan Toronto generally, to have Mr. Bunting then speak for a moment or two on the globalization of financial markets in the world and to have Mr. Riehl discuss with you a few of the misconceptions about Toronto's position that have been around.

If you still have any interest in our presentation, which we hope you have, we would like to get back perhaps to some of the tax policy aspects of it. We may be able to pick up on some of the questions that were started with the previous witness, whom you heard just a moment or two ago.

This is more or less a bridge from what we spoke about the night before last in Ottawa. As you are aware, it is the proposal of the government of Canada to grant a monopoly to Vancouver and Montreal as international banking centres while denying all other Canadian cities such a designation. This initiative is of great concern to the board of trade and, we think, to Ontario. The board wishes to record its strong support for the Ontario government's determination, expressed in its 1986 throne speech, to pursue the designation of Toronto as an international banking centre if such designation of cities is undertaken by the federal government. The board, of course, wants any Canadian centre to be able to participate.

The board has followed with great interest statements of Premier Peterson, Mr. Kwinter and other senior Ontario officials expressing serious concern and opposition to the federal government proposal, which we believe would ignore the realities of the marketplace and Toronto's role as Canada's leading financial centre. Naturally, we support and applaud Ontario's rejection of the federal proposal.

We appeared before a committee of the House of Commons and, at that time, tried to summarize the position of the board. Simply stated, we believe

Toronto should be included in any list of Canadian communities identified by the government of Canada as international banking centres. We prefer that market forces identify those communities, once the right to do so is given. What we particularly asked the federal committee to do was to recommend to Parliament that it not proceed with the IBC proposal as it stands.

We urged them at least to recommend that the government not proceed until the proposal had been analysed as part of the total tax reform studies initiated in Ottawa. We as a board will be most surprised if the IBC proposal, as it now stands, survives an objective review in the context of a reformed tax system having among its objectives fewer preferences, greater fairness and simplicity.

Obviously, we have to give some reasons--and we have a number of them--for reaching that conclusion. One of them is the rapidly changing environment we are in. There is no doubt that the financial services industry is experiencing, and will continue to face, radical and massive change. The big bang of deregulation in London, in October 1986, and coming up in Canada, particularly Ontario, and the rapid growth of Japanese commercial banks in the past six years from one to six of the top 10 banks of the world are just two examples.

The internationalization of the marketplace is here now. There is no international agreement for global trade and financial services, and the competition is tough. Canada will succeed in this changing environment by the quality and efficiency of its performance, and the marketplace is going to make that assessment. We feel our country cannot afford to have legislation that ignores the reality of market forces by handicapping Toronto, which is Canada's number one international financial and banking centre.

1010

Handicapping Toronto will hobble Canada's strongest runner in the race for trade and international financial services to the detriment of all of Canada, whereas we think including Toronto would help Canada. The IBC proposal, as we understand it, is directly contrary to the philosophy of deregulation, which is to free participants to compete effectively for financial services in the international market.

We would like to comment on the point of international perceptions as well. It has been suggested that if Montreal and Vancouver are designated IBCs and Toronto is not, this will have little or no effect on Toronto's international reputation.

This view is not shared by those who are involved with international financial transactions on a daily basis. Perceptions are important, and if the most senior government of a country appoints specific cities as IBCs, that action can be perceived internationally only as the official will of that country, appearances and realities notwithstanding. The result is the delivery of a confusing signal into the international marketplace about how Canada assesses its own financial centres.

By way of example in this, I have a memorandum to me from Martin Willschick, who is with the city of Toronto finance department. He deals daily with huge amounts of money in the money market. In so doing, he is dealing with money market people from all around the world. I asked him what his experience had been. I will read extracts from this memorandum, which is available if you wish it. He wrote:

"I have received various reactions and comments from many prominent international market participants who have been unanimous in their utter surprise, confusion and condemnation of the proposed exclusion of the city of Toronto from the IBC designation. These comments, which were largely unsolicited, categorized the federal government's thinking as parochial and felt that it would definitely injure Canada's chances of becoming firmly established as a second-tier"--not first--"financial centre."

It goes on at another point here: "Since money market and foreign exchange transactions are generally done by telephone with only initial verbal confirmation followed by a written contract, the question of confidence, which is shared by each market participant on a personal basis, as well as confidence in the integrity of the financial and regulatory assistance must be addressed. It is their opinion that the exclusion of Toronto as an IBC places this level of confidence in question and causes a great deal of concern. It just does not fit into the current trend towards deregulation of financial institutions, which is occurring throughout the world and is beginning to be acknowledged in Canada. Internationally, this type of measure appears to be too interventionist for a modern government to pursue."

I can leave that but that is an example of one man's experience.

By way of example of what we would look like to the rest of the world, one wonders what the reaction would be if Washington named San Francisco and Boston as international banking centres and left out New York or if, in the UK, the cities of Liverpool and York were designated but not London.

Mr. Foulds: What is wrong with Liverpool and York?

Mr. Robertson: Absolutely, we could not agree more.

We know of no country in the world that has enacted legislation appointing specific cities within its borders as international banking centres. We are prepared to go into more detail on that, if you wish.

Another of our concerns is the tax war among the provinces. Each province in Canada must develop a tax structure that reflects its needs and goals, all hopefully within the context of national requirements and in recognition that the same taxpayer supports many levels of government.

While the Canadian tax system is far from perfect and, indeed, is soon to be reviewed, it is obvious that the IBC proposal is already creating friction when this province threatens to act to neutralize a federal move on this matter. We are quite prepared to return to this and suggest what will have to be done for Ontario to protect itself should this thing go ahead. Surely it is not in Canada's best interest to adopt a tax policy that will generate a tax war between provinces.

Another major concern that we have is that the proposal that is on the table edge now is a thin edge of a wedge for a broader scope of activities. I do not know if the previous witness or the committee has been given a capsule of what the proposal is. I will not do it now but I am prepared to do that at your instruction.

We have been advised by the Department of Finance in Ottawa that the legislation now being contemplated is limited to the lending of funds to nonresidents of funds deposited by nonresidents. This is a much narrower scope of activity--the profit from which will enjoy federal income tax

exemption--than the activities contemplated in the department's discussion paper that we were given in September 1986, and it is very much narrower than the exempt activities in the Quebec legislation.

We have here, copies of the Quebec legislation, particularly the Quebec regulations. I do not know if the committee has received them but we would be happy to provide them with copies.

Mr. Chairman: Is that the Rasminsky and Lawson paper?

Mr. Robertson: No, this is the legislation already in force in Quebec--

Mr. Chairman: Oh, I am sorry. No, we do not have it.

Mr. Robertson: --and the regulations, which are the most important part of it, which have been promulgated in Quebec, appointing Montreal as an international financial centre. The distinction between international banking and international financial is quite significant because of the scope of activities that will get the tax exemption. If the committee does not already have this material, we will be pleased to leave it with them.

Mr. Chairman: Thank you very much. Those may be the answers Mr. Shymko was seeking.

Mr. Robertson: We described to you a moment ago the scope of the present federal proposal. We were given this information by officials of the Department of Finance last week. We were not given any pieces of paper. Though they had pieces of paper with them, we were not permitted to see them, but they did describe it. I have described to you our understanding of the major part of it. That is quite narrow, but that function alone is a major part of international banking business, namely, the lending to nonresidents of funds deposited by nonresidents. Profit made on that will be exempt from tax.

As a result of the narrower scope and other changes, only a modest transfer of personnel would be anticipated at the outset. Presumably, we think this narrowing has been done in response to the considerable concern that has been expressed about the domestic impact of the proposal. That accounts for why we have no difficulty in agreeing with your previous witness that the proposal, as now envisaged, would not likely, at the outset, pull the jobs out of Toronto that were previously anticipated and indicated in the city of Toronto study done by Woods Gordon. It was based on the scope indicated in the Department of Finance discussion paper of last September, which included foreign exchange transactions and several others. That is the explanation for that difference.

We remain concerned because, once the principle of selecting cities in Canada to be international banking centres has been enshrined, we are certain there will be continuing strong pressure to expand the activities of these centres and extend their services into all areas of international banking and beyond international banking.

As you know, governments have been known to respond to pressure in the past and could again in the future, particularly when they claim to be merely embellishing an established program. In addition, narrowing the scope of the legislation now contemplated would have no effect whatever on the negative external perception that will occur if the IBC designation is applied and Toronto is excluded. We do not think it helps at all in this area simply to keep narrowing the scope.

We pose a final question. What is in it for Canada? In the final analysis, we think this is the key question. You will perhaps recall the report to the Department of Finance in Ottawa by Mr. Rasminsky and Mr. Lawson stated, "It does not seem likely that Canada could win more than modest benefits from aggressive tax competition to attract international banking activity, and the extent of these would be uncertain." These views were reconfirmed by these gentlemen when they were before the federal committee last December.

To our knowledge, there have been no other studies commissioned by the Department of Finance to dispute these opinions. For that matter, we are not aware of any studies done by the Department of Finance to determine the tax losses to Canada or the value of any new business that might be generated for Canada or to assess the costs of inefficiencies that could occur by implementing the proposal.

As you know, our bottom line is that we want to see the market determine where these activities should be carried on in Canada. The board is well aware of the favoured economic position enjoyed currently by Metropolitan Toronto. We well understand the desire of our national government to stimulate the economy of other cities and regions and to promote the economic health of Canada as a whole. We do not believe these goals are best achieved by trying to legislate changes in market forces in a field as volatile and sensitive as international finance.

Unless Canada is prepared to meet its competition head on with as few tax or trade distortions as possible, we feel our economic prospects as a nation are in trouble.

In summary, we think the international banking centre proposal is out of step with the realities of the international financial world today. It will create unnecessary disputes within our country in return for doubtful benefits, will distort market decisions and will restrict the ability of Canada's major financial centres to compete internationally.

Gentleman, that was submitted in Ottawa, and we submit it to you. Mr. Bunting is prepared to speak in a very up-to-date manner on what is happening in the global market, if that is in order.

Mr. Bunting: The point of my remarks, and I will try in effect to make a summary of a summary, is that the globalization of competition in financial services is here. Let me give you a quick background to what has been happening.

Since the war, there has been a buildup of funds in institutions all over the world, basically pension funds and that sort of thing, which have been tax-protected. These funds have become huge in most developed countries, and now they are sometimes too big to be able to operate effectively in the markets in which they were developed.

This, among other things, has led to their desiring international diversification. At the same time, there has been a worldwide demand for capital. The proof of the pudding that this type of market is developing on an international basis is that the Eurobond market that started in the 1960s is now a \$400 billion a year market.

Eurocurrency markets, which are centred in London, are \$28 trillion a year markets, believe it or not. London is trading \$90 billion a day of currency; New York, about \$54 billion; and Tokyo, just behind New York.

We are just beginning in the international equity trading markets. According to Euromoney, there are now 472 companies that are traded virtually every day outside their country of incorporation.

There is a bit of an incongruity when you look at global markets that rises out of an historic trend towards geographic centralization of financial services. They have gone from local to regional to national and they are now going to time zone and to global.

To give you a quick Canadian example of this, the Merchants Bank of Halifax was founded in that city. It then became the Bank of Nova Scotia and moved its headquarters to Montreal and subsequently to Toronto. This is an indication of these trends within Canada. Another one is Royal Securities, which was started by Max Aitken in the Maritimes. It moved to Montreal and is currently owned by Merrill Lynch, whose headquarters are in New York.

What we are seeing now is a trend beyond national borders to what you can call a time zone buildup. In our time zone, of course, the major centre is New York, but in other time zones--for instance, London has become the centre of the Eurofinancial services market. They have developed in recent years the Eurobond and Eurocurrency markets. Nomura Securities, which is clearly becoming the biggest national lender in the world, states that it expects the Tokyo market to be bigger than the New York market by 1995.

In a sense, as markets globalize, New York is losing market share in a global sense to the rest of the world. However, they are still gaining absolutely and within their time zone. To use an example with which I am very familiar, of the top 25 stocks on the Toronto Stock Exchange today--which is about 40 per cent of our trading--we do 51 per cent and they do 49 per cent. I am actually talking about Canadian numbers at this point. You can see we are very close to a situation where the trading of Canadian securities interlisted in the United States could be greater in the US than in Canada. If current trends continue--and I am not saying they necessarily will--we estimate that by 1992 the New York Stock Exchange alone will be trading more in Canadian stocks than the Toronto Stock Exchange.

The factors leading to this sort of centralization, which has moved from local to regional to national and is now going to time zone and international, are perhaps illustrated by the fact that complex and risky situations tend to be handled by experts at the centre. This is illustrated by the way a bank operates. Smaller decisions can be made locally and slightly larger decisions can be made regionally, but the bank's directors actually come together at the centre to review the very biggest loans. Large bank loans are just an indication of a type of complex decision. There are other things of a comparable nature.

Money market operations are of a similar complex and risky nature and they tend to be centralized, as are currency operations, large underwritings and clearing and settlement. These trends are self-reinforcing. If you use the stock market as an example, once a city becomes the predominant and most liquid market, then other people say, "That is where the market is," and more and more tends to go there.

Geographic location is another factor in centralizing. London is really

developing today because it is well positioned between Tokyo and New York. Some people are now saying that in the United States, Los Angeles may be the growth international financial market because of its positioning between New York and Tokyo.

All this is simply to say that we as a country, and Toronto as a city, are involved in international competition and that the natural trend has moved things to us and is now naturally moving them beyond us. We are taking steps, and the Ontario government has decided that to be able to compete in the international markets, we should see deregulation in this province of the financial intermediaries. I think this will in fact work positively in the international sense to give us an immediate advantage. However, the steps being taken by the federal government, which are interventionist, giving a monopoly to a part of the country other than the main financial centre, are in fact working contrary to what the government is trying to do in that respect.

1030

As Mr. Robertson said, the federal government is giving a very strange signal to the rest of the world, a very confusing signal, about the importance of Ontario and Toronto in the picture in Canada in terms of financial services, and one I think will worry people abroad, because money flows, and stupid interventionism is not something that foreign investors are pleased by.

Mr. Chairman: Thank you very much. That was fascinating.

Mr. Robertson: Mr. Riehl will address one or two points.

Mr. Riehl: There are a number of misconceptions that have been built up through the various arguments you hear through the press and so on. We wanted to put Toronto's position very clearly and also to clear up a few of the other statements that have been made that are not accurate.

First of all, what does Toronto want? We do not want to be named as the international banking centre of Canada. We do not want to preclude Vancouver or Montreal from being international banking centres.

We take the same position as the Treasurer of Alberta in his letter to the Minister of Finance dated June 4, 1986: "As Alberta has indicated in previous correspondence, amendments to Canadian tax laws aimed at encouraging international banking should be national in orientation and should permit market forces to determine the scope and location of the operations....As such, the proposal may further balkanize the Canadian economy and financial system."

C. J. Purvis, the mayor of Edmonton, wrote in 1982: "There are already too many divisions which pull Canadians apart rather than draw them together. Any action by the government of Canada to provide preferential treatment of one community over another will not serve the common good of Canada."

Our position is the same as the Canadian Bankers' Association, which stated in its letter of July 16, 1986, "A more realistic approach would be to allow market forces to determine the location of IBCs within Canada."

This has been repeated by the chief executive officers of at least three of the five major banks. There is a reported telex put out by the CEO of one bank that described it as being disastrous.

An independent survey of the B-banks by Bay Research indicated that the majority of the B-banks disagree with this proposal. The B-banks are the foreign banks that have located in Canada.

The president of Morgan Bank of Canada, in a letter to the Minister of Finance, stated, "In summary, an IBC offering significant income tax incentives and an appropriate corporate structure may very well be attractive to foreign banks, but the benefits to Canada are at best unclear."

Another example that has been cited, and was certainly cited by the group in Montreal as the reason this policy should be proceeded with, is the establishment of an IBC in New York as an example to support the establishment of IBCs in Canada in designated cities.

The situation is not comparable. The federal US legislation authorized the establishment of international banking centres anywhere in the US. It did not designate any particular city, state or region. The only concessions made by the US legislation were to exempt the requirements of the Federal Reserve System for international banking on two points: interest ceilings and reserves.

As far as reserves are concerned, Canada already did exclude and still does exclude the foreign assets from the reserve requirements of the central bank. There were no tax concessions made by the US federal government to international banking centres. They made no tax concessions whatsoever.

The COPEM report of Montreal suggested, on the basis of New York's experience, that thousands of jobs would be created from offshore. In fact, a survey of 72 American banks in New York estimated that 55 to 67 new jobs were created. I repeat that what was done in New York is not comparable with what is proposed. We do not know what the cost in tax revenues will be to produce these new jobs in Canada, but I think it will be several millions of dollars for every job created.

I tried to make a case for Toronto's role as an international banking centre. I do not need to take up your time with this now. I will merely state that Toronto achieved its position over a period of more than 130 years and did it without any federal government assistance whatsoever at any time over those 130 years. It achieved that position prior to the problems which arose in Quebec. We have some papers which we will make available to you to help back up some of the things I have been stating.

There is also a misconception about the way banks operate. All banks compete internationally and they have to be as efficient as possible. The domestic and international operations are intertwined because this is the most efficient way to carry on business. If you move one part of a department, the balance will have to follow in order to remain competitive. That is why so many people in Toronto are concerned about having to move and why our community is so concerned about the impact of losing them.

International banking is a highly specialized industry where tax laws are of vital importance and require a knowledge of not only Canadian tax law but also the tax laws of various other countries. The real experts in this field are found only in the industry because it is so highly specialized. We find it strange that the first technical discussions with the Canadian Bankers' Association and the Department of Finance were only held last week.

We have found that Marshall Cohen, the previous federal Deputy Minister of Finance, did a study and had rejected the idea on January 23, 1983. He consulted with the banking experts before he gave that opinion.

I would like to quote the Premier of Nova Scotia in another letter to the Minister of Finance, "I am convinced you should go one step further and give Halifax the opportunity to be an international banking centre for Atlantic Rim countries." It is interesting to note that, if Montreal has a claim to a monopoly on international banking on historic grounds, then Halifax has an even better one. Halifax was Canada's first banking centre and two of Canada's big five banks originated here.

If a Canada-US trade pact is successfully negotiated for the benefit of all Canada, then our north-south trading patterns will increase substantially because these are our more traditional or natural trading routes. Thus, our Atlantic provinces will have increased trade with the Atlantic seaboard states and the western provinces with the western and central states.

It seems ludicrous that they will be trying to deal with US cities which are allowed to have international banking centres, while cities such as Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Quebec City, Sherbrooke and Halifax will be precluded from being on the same footing. These facilities are important to other Ontario cities, particularly our border cities such as Sault St. Marie, Sarnia, Windsor, the Niagara region, Kingston and Cornwall.

One of the reasons why this is important is that the whole concept is broad enough to include trust companies. If people from across the border wanted to make a deposit with a trust company headquartered in one of the border cities, they would not be able to get the same tax break as they would if they did it with one of the central banks through Montreal.

1040

I am almost through. I will not keep you any longer. The mayor of Hamilton has stated his opposition to these proposals, and we believe there are many other cities that will feel the same way, particularly when they find out what is in store for them.

The federal government has stated certain principles: less government interference, let the market forces decide and create regional harmony. This policy fails on all three points.

Mr. Chairman: Obviously, you have whetted the appetites of our members. I have five names here, and we have 21 minutes. Please try to ration yourselves to about four minutes each. Then we will all have a chance to ask questions.

Mr. Robertson: Mr. Chairman, I hate to interrupt, but we did not get to all those letters in plain brown envelopes. We have a bundle that Mr. Riehl acquired from the Department of Finance by applying under the Access to Information Act. We have a package, if you would care for it. Your federal counterparts did not have it and they wanted it. We have brought them for you if you wish to have them. That is how we got them.

Mr. Chairman: We appreciate that very much and we appreciate the effort you went to to get it.

Mr. Riehl: It took me a long time, but I will not go into that now. When you look at the material, you will see there is a lot that is deleted. I hope you can pursue it and find out what those deletions are. There is some material that we were never given. We know we were not given it because we have copies of what we were not given.

I will provide you with a list of the items that they said they deleted so you can pursue getting them if you wish, with better luck than I had.

Mr. Chairman: Are you prepared to give us the material? I did not hear that--

Mr. Ferraro: No, he is not.

Mr. Chairman: You are not. All right.

Mr. Riehl: I will give you a list of the items they said were excluded.

Mr. Chairman: All right. We would appreciate that very much. We will have this distributed to committee members by next week.

Mr. Foulds: What about the list of material you say you have that is not in the bundles?

Mr. Riehl: I will give you that list.

Mr. Foulds: You said you had copies of those documents.

Mr. Riehl: A couple of items we have copies of, yes.

Mr. Foulds: Will you make a couple of those items available to us?

Mr. Riehl: I see no reason that I should not.

Mr. Chairman: We appreciate that. It will be interesting to compare them.

Mr. Ashe: I have a brief statement and then a question for Mr. Riehl.

There is no doubt there is unanimity in this committee, as there seemed to be in your various presentations, that if the board had its druthers, it would say: "Fine. Designate Canada, but nowhere in particular in Canada. The market will decide that." Is that a correct conclusion on the board's perspective?

Mr. Robertson: That is correct.

Mr. Ashe: Obviously, if there are designations, Toronto has to be included. This committee is on record as saying the same thing.

There is one thing I would like some clarification on. I know your expertise is in taxation and tax policy as it relates to the accounting business. Our previous witness was Professor Brean from the University of Toronto. We had a great discussion about whether this whole thing was much ado about nothing because, for all practical purposes, the offshore business of the domiciled banks now attracts, and I think I am using the correct words, virtually no taxation in Canada. It was not absolutely none, but virtually. In other words, what there was was insignificant, so it was a mountain out of a molehill.

From what you have said, particularly when you talked about several millions of dollars per job, if you relate that to the 50 or 60 that were in the United States, you obviously figure there could be some jobs. What are the tax implications of having a tax haven?

I will go further so that you can roll it all in rather than my asking a second question. I posed this one earlier. Are you aware of any jurisdiction that has designated banking centres, or banking countries for international banking, where they are offering as the incentive not tax relief but tax inducement, the ability to write off some of their profits to their domestic banking operations that they might make from their international banking operations? We came to the conclusion in the last discussion that is the only way there would be any tax attraction.

Mr. Riehl: Let me start by saying there is international banking done in Canada.

Mr. Ashe: Yes, I understand that.

Mr. Riehl: I have talked to people at Woods Gordon. They estimate that somewhere from 3,000 to 5,000 people out of a total of about 73,000 in Toronto are employed in areas that would be described as international banking. This is a very highly specialized area, and we are not experts in it--you would have to get people from the industry--but it is my understanding that a lot of the expertise is done right here in Toronto. The operations offshore are very nominal. They are done by telex. The people here have to decide where they want something booked, as they call it, and taxes play a very important role in this because the people are not dealing in percentage points; they are dealing in base points, which is one hundredth of a per cent.

They are competing with other international banks. For example, you have withholding tax. If you take a 15 per cent withholding tax off the interest you pay to somebody outside Canada, he looks at the net amount he is getting. You offer him 10 per cent and he thinks he is getting 8.5 per cent. To give him 10 per cent, he wants roughly 12 per cent. If you are in competition, you cannot do it because you cannot borrow at that; you are always offsetting loans and deposits and you just cannot compete. You have to do it the way everybody else does it, offshore at various banking centres, arranging the best possible combination. This is done by having people at these various centres. There may not be many of them. That is why there are not a lot of these in the tax haven; there are not a lot of people there, actually. It is a matter of substance, and that is not required at the present time.

The Quebec legislation requires substance. That means all those operations have to be there. That is the Quebec government's proposal. The original proposal the federal government put before us required substance as well. If that is the case, a lot of jobs will shift of the people presently doing work in Canada. We do not think it is going to bring much from offshore. We think the real intent is to move business from Toronto to Montreal. When you look at it externally, we do not think it is all that great, but when it is internal, yes, it will move because the work that is done now would have to be done elsewhere.

Mr. Ashe: I will use a figure. I have no idea that it is relevant; it is just for illustration. You are saying that if there is a trillion dollars' worth of business in international banking that started in Canada that is being done offshore now, basically, even by changing the designation, there will still be a trillion dollars that Canada will be able to do afterwards, give or take a billion.

Mr. Riehl: I guess that is--

Mr. Ashe: It will not substantially change our force in the international market place.

Mr. Riehl: Yes, it will.

Mr. Ashe: Why? You say they do it now and avoid local taxation, which we understand is insignificant anyway. They book offshore. What is the difference? They make book in Montreal or Vancouver rather than make book in the Bahamas; it is the same.

Mr. Riehl: That is the matter of substance. If you look at the Quebec legislation, it requires a presence. The people who now are doing it in Toronto would have to move to Montreal to qualify.

Mr. Robertson: Mr. Ashe, if I may take a short shot at this, the substance part is exactly right. As we understand it, to qualify under the current proposal of the feds, one of solicitation, negotiation, analysis or management of a loan with an international banking centre has to take place by an employee employed at the IBC location. They have particularly stated that it is not to be just a booking point. If it were just a booking point, the point you make would be correct. If you require more substance of employees--now this is a pretty light substance basis that they require.

Mr. Riehl: That is the federal one.

Mr. Robertson: It is the federal one. To qualify for the provincial one, they require even more substance of employees being on the site. When you add that, if they now are in Toronto doing some of these things and you are not going to duplicate your services, you are going to have to have employees at that site to qualify. If they are here now, where else do they come from?

1050

There are not very many, other than in the bookkeeping part offshore. Incidentally, they are offshore because of the tax credit mechanism in Canada. In 1982, the board suggested that the way to bring things onshore right across Canada was to change the tax credit mechanism so banks could lump onshore loans from various countries with high and low withholding taxes. One of the reasons the banks are operating in branches offshore is so they do not lose tax credits. For some reason, the feds will not go for a simple proposition.

Mr. Ashe: If they are booking something now in the Bahamas and there is a--of course there is no tax there, as I understand it, so there is no offset in tax credit, because they are not paying any taxes anyway. The advantage, then, of in theory moving it here still escapes me. They are avoiding tax now in any event, so what is the difference?

Mr. Robertson: In a branch, if you do not offset your full tax credit for other countries' withholding taxes right up to what the Canadian tax would otherwise be, there is a band of whatever it is, which depends from case to case, but it would be taxed under the normal corporate tax regime in Canada. That will not occur under the international banking centre, which exempts the amount earned.

You are quite right. You come almost to the conclusion that it is either an empty thing that is almost a fraud on Montreal and Vancouver, and a giveaway for nothing, or it does something, and it is hard to determine which.

Mr. Ashe: We agree on that, then, that it is nebulous. What we are looking at is the current proposal, but the main concern is what it might open up in the way of expansion and forcing corporate head offices to move

elsewhere. I have been told that at least one of the major Canadian banks has already indicated to many of its staff members who operate in an offshore regional office in Toronto, to take care of offshore banking, that if Montreal is designated and not Toronto, that division will move to Montreal. I do not know that they know why, frankly.

Mr. Riehl: That is right.

Mr. Robertson: As Mr. Riehl said, they have to have a presence in Montreal to qualify for the provincial and some presence to qualify for the proposed federal. If the work that is being done for an offshore branch is now being done in Toronto, and the bank has to have the substance in Montreal to qualify, then the bank has to move from Toronto because that is where it is.

Mr. Riehl: The other point is, in the information I tabled, you will see that the intention all along, as far as the pressure from Montreal was concerned, was to have the federal legislation and the Quebec legislation parallel and working together. I think they used that--to work together--to achieve this. You may as well look at the Quebec legislation to see what the real blueprint is for the intended eventual federal legislation, because the pressure will be on to duplicate that. That is what they have always intended.

Mr. Ashe: Okay. I have this one last question.

Mr. Mackenzie: You have already taken more than half the time.

Mr. Ashe: I could carry on, but I will not. It appears, then, that the whole thing is to give this benefit to Montreal and the only reason Vancouver is thrown in is just to make it not as obvious.

Mr. Riehl: Yes.

Mr. Chairman: I understand the Bank of Tokyo has already responded to a submission based on the Quebec legislation and is prepared to open a branch in Montreal.

Mr. Ferraro: I will try to be brief. When it hit the media, politicians and the board of trade--not so much the board of trade--when the general public in Ontario first heard about this, there was an obvious knee-jerk reaction such as, "Why the hell are you giving it to Quebec, Montreal or Vancouver and you are not giving it to Ontario?" Vander Zalm is saying: "Why do you guys in Toronto not quit picking on the poor British Columbians? You have everything now."

I mention that from the standpoint of your assumption that market forces should dictate, which I totally endorse, as do other people much more expert than I. It is safe to say that if, in fact, the government kept its nose out of it and let market forces decide where the hell the international banking centre should be, Toronto would probably have an advantage, as it does now. That is taken for granted.

Notwithstanding the fact that the federal government, for whatever reason--and this will be my final question--wants to get into this thing and that the position of the Board of Trade of Metropolitan Toronto and, to some degree, a lot of people in Ontario, I am sure, is to let the market forces decide, if the federal government seems to be intent on designation, could you comment on what the hell it means to the international community if we designate two as opposed to one or possibly, at the very least stand-back

position, three? Does that make it that much more ridiculous to interfere in this thing to have more than one?

Mr. Bunting: We clearly stated right from the beginning that our position as the board of trade is that it should be available to any city. If it is going to be three, then we say, "Why hobble Canada by having the primary financial centre not included?" We are not saying, "Make it three"; we are saying, "Let the market prevail."

Mr. Ferraro: Fair enough. In essence, what you are saying is, "Keep your nose out of it," by stating that. What you are saying is to let everybody grasp for the designation and give it to them.

Mr. Bunting: That is correct.

Mr. Ferraro: But if the federal government is going to make specific designations--and let us make the assumption; let us take what we have--of Vancouver and Montreal, does that have any bearing as far as perception out there is concerned that we have two instead of one?

Mr. Bunting: It has great bearing. As I said, someone looking at Canada from abroad, thinking of opening here and trying to figure out what kind of country he is dealing with cannot help but perceive this as a very parochial country which does not seem to understand that we are in a globalizing world which is terribly competitive and that it should not be hobbling its best horse.

Mr. Ferraro: I have one final question. I will try to be brief.

If the mind boggles at the logic--and I am sure it does--if it does not make any economic sense, if one can question the social aspect of it, the only other alternative one can really deal with is the political thing: He is doing it for votes. I suggest to you, gentlemen, that there are a hell of a lot more votes--we know it--in Ontario than there are in British Columbia and Quebec.

Is there any sense at all in what the federal government is proposing, from your perspective?

Mr. Robertson: The short answer is no.

Mr. Chairman: We are the politicians, Mr. Ferraro.

Mr. Foulds: Are the market forces not strong enough to overcome these steps by the federal government anyway? They seem so limited and narrow.

Mr. Bunting: I think, as was stated earlier, the fact of the case is that the proposal is narrower than was described to us at some point, although we think perhaps it was blown up at that time in order to bring it back to what was originally intended. Nevertheless, with this current proposal, the market forces would overcome these steps. It does not mean the end of Toronto as a major financial centre or anything like that. The real danger in this is simply that it is the thin edge of the wedge.

The future is international financial services. If this is expanded and if substance is put into it so that more and more rules are made about where you actually have to have the people doing the work, they are simply going to be transferring the future of financial services within Canada. That gives a very strange signal to the rest of the world and is certainly not in the best

interests of this city. I do not think it is in the best interests of Canada as a whole, because we are having this internal divisiveness at a time when we should be working together to achieve some success internationally.

Mr. Foulds: I found your historical argument kind of interesting. It was also almost Marxist in its inevitability in terms of going from the small town to the region to the time zone. But is there not, in fact, an international trend which you outlined, that Toronto will be subsumed by New York?

Mr. Bunting: That is exactly my point. That is the natural evolution of what has been happening.

1100

Mr. Foulds: If we let the market forces dictate that, it will happen and Canada will not have a substantial financial centre.

Mr. Bunting: There are possibilities of discontinuity. The things you said or perhaps did not say are not necessarily inevitable. Certainly I would like to think that Canadians are quite capable of looking after themselves in a market situation. I think they can.

Mr. Foulds: What you have said to us is that Nova Scotians were not able to and regions were not able to, and what I am also hearing from you is that we are going to these larger accumulations, larger centres. Then does it not make sense, contrary to what Mr. Ashe said, for Canada to try, in a different time zone such as Vancouver, to establish a financial centre that would be competitive, say, with Los Angeles, which appears to be one you have named as growing in competitiveness with New York, and thus place us in a good position between New York, London and Tokyo?

Mr. Bunting: Yes. I said exactly that to the representative on the federal committee from Vancouver the other day, but you do not need to interfere with market forces. Vancouver is on the Pacific Rim; it is in a position geographically to gain. The market forces do work favourably for Vancouver, so there is no reason we should interfere with market forces specifically in order to help Vancouver.

Mr. Foulds: Except in the development of Vancouver's stock exchange and the very fact that Ontario and the Ontario Securities Commission took certain steps back in the 1960s, I believe, such as the development of the junior mining stock and so on, and that gave a big boost to the development of the stock exchange. If you are using the parallel arguments of banking and stock exchanges, I think there may be a kernel of truth or of sense in what the federal government is doing.

Mr. Riehl: There is one point: There are a lot of cities between Toronto and Vancouver.

Mr. Foulds: Right, yes.

Mr. Riehl: If we are going to get more north-south trade, as the federal government says we will, those cities ought to be given an opportunity too, because they will need those kinds of facilities.

I gave you a bit of history of what happened in Canada. It has been moving west from Halifax to Montreal to Toronto. It is still moving west, and those people ought to be given an opportunity.

Mr. Foulds: It is going to move south. The market forces dictate.

Mr. Riehl: That is the point. I mean, here we are, confusing the whole issue, dividing up our team, you might say, and causing confusion. I made a reference that was quoted about the Edmonton Oilers, mentioning Gretzky. It is even stupider than that. It is really that we are going to go into a competition, and we are only going to have two players on the ice. We should let the whole team get out and play, including Gretzky.

Mr. Chairman: Time constraints dictate that we should cut off the debate. I apologize to Mr. McFadden and Mr Mackenzie, who did have their hands up, but I think in view of the fact that we may be called into the House before noon, we should move on to the next witnesses.

I appreciate your input very much, gentlemen. All three of you have given us a great deal to think about, and also the information you have made available to us, which we will use, certainly. Thank you.

Perhaps we could get started again. We welcome the Treasurer to meet with us and give us his comments. We are attempting very strenuously to find some rationale for this federal initiative. We are very interested in what your comments might be. Your handout has just been handed to committee members.

Hon. Mr. Nixon: Good morning to you all. We passed around a briefing paper that was made available to me and also a more in-depth study provided by Treasury. It is marked confidential, so please do not let anybody at all have a look at this.

Mr. Foulds: Is this open government?

Hon. Mr. Nixon: I thought it was a quite a good review that was provided to myself, the Premier and my colleagues some time ago. There is no reason committee members should not have a look at it to assist them in their deliberations.

I am certainly the wrong man to be asked to justify the decision. Perhaps as a politician I can see the justification more than I can as the Treasurer of Ontario. I find it singularly strange that the Minister of Finance, who was more or less born, bred and raised in the financial community of Toronto, should be perforce the major proponent of a concept that does not make sense by any measure I can determine.

The arguments put forward by the people who appeared just before me and, I think, in your previous deliberations are good ones. Even the Gretzky analogy interests me since Mr. Gretzky and his family have been constituents of mine in Brant-Oxford-Norfolk for many years.

Mr. Ashe: That is why he moved.

Hon. Mr. Nixon: This is a confidential hearing. I think there used to be a New Democratic Party sign on their lawn occasionally.

Mr. Ferraro: That was before Gretzky became a capitalist.

Mr. Taylor: That is all changed now.

Hon. Mr. Nixon: It has all changed now. No doubt he is a principal investor and player in the world we are talking about.

I think it is evident that the response from Ontario particularly, indicating our objection to tilting the playing field, as the people in this business seem to refer to it frequently, is a valid objection. It certainly is going to be misleading as far as international financial authorities, bankers and others, are concerned, when they are used to doing business in Toronto. We have really established ourselves, if not as a primary financial centre, certainly as a principal component among the secondary centres; I do not want to take second place to anybody, but I suppose New York does still do a bit more business than we do.

It would certainly be misleading to people making financial and banking decisions around the world when the government of Canada invites them to go to Montreal or Vancouver, when in fact by dint of hard work, aggressive competitiveness and a certain degree of luck, presumably, Toronto has attained some pre-eminence in Canada. I do not know of any other nation that has a double, let alone, in our sense, a triple designation of banking centres on an international basis.

We are also concerned as to the divisive aspects of this decision in the healthy political life of our nation. I think Mr. Blenkarn used the same adjective when he was discussing it in his capacity as the member for one of the Ontario federal ridings and also as chairman of the federal committee dealing with this matter.

I still think there is some reason to hope the Minister of Finance will not proceed with the regulation that accomplishes the designation. It is not entirely clear what his regulations will accomplish, other than presumably the exemption from taxation for certain deposit and loan programs taken among international principals.

The Premier has indicated quite clearly that if the Minister of Finance does proceed, we intend to compete with Montreal and Vancouver in the best way we possibly can, but I may as well be frank and tell you we really do not know what the federal initiative entails. My own sense is that it has been diluted as the decision has been postponed, or apparently postponed, on more than one occasion. We hope further dilution will occur and I think there is even a chance that the government of Canada will not proceed since there has been some substantial objection, not necessarily from people subjectively interested in Toronto's position but from those people who have a more objective view in business matters in general.

I know the members of the committee would like to express their views as well, and I would be glad to respond to those views. We have two assistant deputy ministers from the Treasury who are knowledgeable in these matters and who would be glad to assist in the response.

1110

Mr. Chairman: I have a number of people with their hands up. Mr. Mackenzie first this time, then Mr. Foulds, Mr. Ashe, Mr. Shymko, Mr. Ferraro and Mr. McFadden.

Mr. Mackenzie: The first witness before us today, Professor Donald Brean, made some very clear comments that Canadian banks do not pay tax on international business now, that there are extremely few restrictions, and that in his opinion there was no plus in the move in terms of labour; that is, in the international banking centres, per se.

The witnesses who followed him from the Board of Trade did not dispute

the first two points. They did make a bit of an argument in terms of the potential of some moves in personnel between Toronto and Montreal and so on.

With no real plus, are we not really dealing with nothing more than perception and politics in this issue?

Hon. Mr. Nixon: Yes. The politics I think we understand. The perceptions may be more important than the witness you referred to is prepared to admit or agree with. Perceptions account for a good deal, in my opinion, in business decisions. In particular, people who are making international decisions involving banking might very well respond to an indication of preferment from the government of Canada. At the very least, it would lead to some indecision, if not confusion, in this connection, and the last thing we want to happen is that they might decide that Canada is being somewhat fragmented or confused and they might as well do business in New York first as last.

I am quite aware that some international banking decision-making is not enthusiastically attracted to New York for a variety of reasons, some good and some not so good. Whatever those are, I think we should be in a position to offer a well-serviced North American banking centre as an alternative. We have had the advantage of that in the past and that advantage may improve in the future. I would not like anything associated with confusion in this regard.

There has already been reference to the review that the government of Canada did with Louis Rasminsky and the deputy governor of the Bank of Canada which indicated there was not a plus for the government of Canada to go forward with this. That emphasizes what you said, Mr. Mackenzie. It is perceptual and to some extent political.

Mr. Mackenzie: The other thing that leaves me a little bit cold is wondering what we really stand to gain. I understand it in terms of international business and the necessity of keeping the spreads as narrow as possible when they are looking for money, but it seems to me it is also a method of avoiding taxes, sort of a tax credit or shelter arrangement, and a means, an international means, almost, of avoiding national interests in terms of taxation.

Hon. Mr. Nixon: I do not think there was ever a thought that the federal government was going to designate Montreal and Vancouver as a northern Cayman Islands or something like that. I think they simply wanted to support initiatives taken in Quebec and British Columbia in what they considered to be a reasonable way.

I might as well say that in discussions with my opposite number federally, Michael Wilson, he has expressed some surprise at the strength of the response on the basis that it is not going to involve a significant change of personnel. I have responded to that by talking very much as you have, Mr. Mackenzie; if it is perceptual, we are concerned about that because it gives a misleading signal to international businesses, banks and other financial institutions that might want to involve themselves in Canada or strengthen their position in Canada.

Mr. Mackenzie: It has more to do with strengthening the position of many of the money dealers, or even some of the multinational corporations we have around the world, in getting their money more easily and avoiding the taxation, whether it is here or any other country. I have some difficulties with it.

Hon. Mr. Nixon: You would agree with anybody who would say the profit position of most of these companies and banks has been reasonably good and the last thing we want to do is dump any public money into a system in this regard.

Mr. Mackenzie: We might be losing some public money; that is my concern.

Hon. Mr. Nixon: It concerns me, too.

Mr. Foulds: That actually leads me very neatly into my first question. The Premier of Ontario has said that if the federal government goes ahead with its plan to designate Montreal and Vancouver, Ontario will compete. What does that mean?

Hon. Mr. Nixon: I do not know what it means, other than it means the intention of the Premier, and naturally I back him up substantially, is that we are not going to sit back, if this goes forward, and allow business and personnel to be lost to Toronto, which we think is the pre-eminent banking centre for Canada. We are not going to accept a decision that could and would have deleterious effects in our jurisdiction without offering attractive alternatives to those people who might otherwise decide to leave our jurisdiction.

One of the problems here, of course, is we wish British Columbia and Quebec well. They are very significant financial centres, have been and will be. One of the major objections we feel is that this federal initiative stimulates the kind of competitive response that is not one we would wish. We all feel that, with our political and personal associations in these other jurisdictions, we do not want to be seen in any way as not wishing them well. We want to be prepared to compete with them without the discrimination of this federal initiative.

Mr. Foulds: What you are saying, in effect, is that it calls upon parochial and divisive responses. However, to get back to my question, what kind of assistance or tax breaks would, and could, Ontario offer?

Hon. Mr. Nixon: I cannot give you any sort of a satisfactory answer until we know specifically what the federal initiative will be. I still express some hope that the federal initiative may be diluted to the point where its impact is not going to be of substantial concern to the problems we have raised here.

Mr. Foulds: As Treasurer, do you feel compelled to match whatever the federal tax breaks are, dollar for dollar?

Hon. Mr. Nixon: The Premier has indicated we are going to take appropriate action so that we will not lose our banking involvement and personnel. We do not know what that will entail. We sincerely hope, as I have said, the eventual announcement will not be of a nature that will involve any substantial funding initiatives.

Mr. Foulds: What you are hoping to do is head them off at the pass.

Hon. Mr. Nixon: Right. That is one of the useful things this committee is doing, and, in fact, a very useful thing that the federal committee, which I believe is holding similar hearings, is doing.

Mr. Ashe: My line of questioning is on exactly the same lines. It further indicates the confusion, probably, in the minds of many of the committee members and probably a lot of other people out there as to what we are talking about in a tax revenue sense. Possibly, either you or one of your assistant deputy ministers could become a little more specific. We have had indications on the international banking component of our Canadian banks that there is virtually no taxation demanded now. They do it offshore, and if there are any taxes, they have offsetting tax credits, and they are minimal in any event, so we are talking about next to nothing.

Maybe somewhere along the line somebody could clarify what kind of tax revenue we are now talking about. Is there any impact--and I cannot see that there is--on provincial revenues directly, and/or what are the revenues the federal government derives now from the international banking that we do, apparently predominantly offshore? That is one part and I will get it all on the record at once, because the answers will roll in one to the other.

1120

It was indicated by our previous witnesses that the watered down current proposal seems to talk only about--and we talked about the thin edge of the wedge aspect too, which is obviously of concern--the designation including only business that would be offshore-invested funds, lent offshore to offshore borrowers; nothing more, nothing less. That would be the extent of the designation or the capacity of the designated cities to be able to transact that business. In that sense, what are the tax revenues that would be forgone?

Obviously, that gives the Treasurer an answer of what kind of tax revenues he, in theory, would be putting up, which people seem to indicate is next to nothing, to maintain the business here. I support you in that regard, so I am not being critical of it. Nobody seems to be able to put a handle on whether we are talking about nothing, next to nothing or a substantial sum of money.

Hon. Mr. Nixon: Larry Leonard is the assistant deputy minister associated with tax policy, and Bryne Purchase, whom you know, is the assistant deputy minister in the office of economic policy. I would like Larry Leonard to respond to you.

Mr. Leonard: To come at your question, in the first case, on the matter of what the federal government thinks this international banking centre thing will cost, it has not published any number. I have been variously advised that it is nonexistent in the short term and minimal in the longer term, which can mean everything and nothing. I suspect they are having great difficulty getting a firm number, which is a polite way of saying they probably do not accurately know.

In terms of tax revenues to the province, we tried to isolate this strictly from the standpoint of international banking transactions, which obviously have taken place in Toronto, and it would appear to be somewhere between \$2 million and \$4 million. It is not the kind of information that historically has ever been kept, because it was not a big issue. It seems to be in that neighbourhood. That is money the consolidated revenue fund is getting now. If everything were left alone, that would continue, subject to rate changes or whatever the government might decide to do.

In that sense, it may not look like a particularly large proposition. As several people have pointed out, in terms of revenues forgone, the banking and

financial community is thoroughly capable of organizing its affairs to minimize its taxes. That is all perfectly legal, and they certainly do so. In that sense, the consolidated revenue fund cannot lose what it never had. In dollar terms, it is not monumental.

In terms of principle--and there are lots of people better qualified than I to talk about that--that is really more the issue.

Hon. Mr. Nixon: Is there anything you would like to add to that, Bryne?

Dr. Purchase: No. On the revenue side, I am really not sure. As I understand it, the Rasminksy report said that to the extent banking businesses are attracted to different jurisdictions, it was not primarily related to tax issues; it was more related to regulatory issues. I assume that is still the case.

As the Treasurer said, in terms of the real activity that has taken place, the big issue here is the message sent to the international community about how the federal government views two particular cities and the prospects for doing business in those cities.

Mr. Ashe: It would appear the conclusion is that the overall result to Canada may be a decline because of the loss of reputation from fragmenting the message in the international banking community.

I will pass, Mr. Chairman, so that others can get in.

Mr. Shymko: I think the Treasurer said the following: that the issue fundamentally is perceptual and political; correct me if I am wrong.

Hon. Mr. Nixon: I said that.

Mr. Shymko: Yes, I think you said that. If that is the case, I am still following the same line of questioning in referring to the statement by the Premier that if worse comes to worst, meaning that if Toronto is excluded, you will counter this move with fiscal tax measures of our own. As my colleague Mr Ashe has pointed out, in the light of the comments from the first witness, I wonder whether this indeed means countering nothing with nothing. In fact, as another colleague pointed out, and I believe it was you, David--are you trying to interfere with the--

Hon. Mr. Nixon: I am interfering to call attention to the hot air balloon.

Mr. Shymko: Probably this discussion is all for the birds, anyway. This is all much ado about nothing, as Mr. McFadden pointed out.

Is the Premier's statement really a nonsubstantive statement basically made for perceptual and political reasons, because you do not know what measures you will be taking? My question is, can I have some indication of what fiscal tax measures could be taken? Could you give me some examples that could be taken should this situation worsen?

Hon. Mr. Nixon: We do not know what Mr. Wilson's announcement will involve, if it has anything substantial. If it does and if it has some situation that would make it economically advantageous to do business in Montreal rather than in Toronto, then it is our intention to examine it closely with the indication that we would balance it, if possible.

If, in fact, the federal announcement is made and it does not have anything of substance, we will have to counter it in the same way with an indication on a worldwide basis, as best we can, with the co-operation of the Legislature and the business community here, that we have many advantages to offer if it is just a designation in terms of words. If it is a designation in terms of other advantages, we will have to consider in a close and positive way how we can balance that, so that in the long run the Ontario business community will not suffer from a lack of transactions or by the province losing personnel.

Mr. Shymko: You do not think we are overreacting at this stage.

Hon. Mr. Nixon: I think we ought to react strenuously and strongly rather than wait until we are hurt and then say, "Boy, that hurts." We are concerned about it. This is a federal initiative that is designed presumably, if it has any significance at all, to transfer transactions and personnel out of Toronto and Ontario to other jurisdictions. We do not like that. We are saying we do not like it and we are saying that if, in the event, the federal initiative does have things we can properly and responsibly counter, we will.

Mr. Ferraro: I have a question of the Treasurer. I personally have some difficulty, as do many others in the province, trying to figure out why in hell the federal government is taking this initiative. You said that as far as we are concerned, as reiterated by other members of the committee, it is perceptual and political. I can understand the perceptual thing. Taking into consideration your 25 years of maturity in this House and my two--

Mr. Shymko: Do not overdo it.

Mr. Foulds: He still has his hair.

Mr. Ferraro: You are right and no grey hair. I wonder whether you would care to explain to me the political logic of my perception. I will be brief. You would want to give it to Montreal because you want the Quebec vote. You throw in Vancouver because you want it clear that you are concerned about the west and British Columbia. Where the hell does it make any political sense to stick it to Toronto and Ontario?

1130

Mr. Shymko: Because you have given up on Toronto and Ontario.

Mr. Ferraro: You said you understood it politically. I wonder whether you could explain it to me so I can understand it.

Hon. Mr. Nixon: I am not here to attribute motives to the Progressive Conservative Party of Canada or anyone else. We tend to draw our own conclusions in this.

We also have to be aware that during the last 10 years there have been some unnatural pressures applied to the financial community in Montreal; I think we are aware of that. With the change in government at the provincial level, they have come back very strongly indeed with initiatives that, frankly, are admirable in restrengthening and reviving financial activities and the role of Montreal on the world financial stage, for which I have a great deal of admiration.

As Treasurer of Ontario, I look at that with a great deal of interest

indeed. Mr. Bourassa and his government have taken initiatives that certainly have an effect here and they are the healthiest kind of competition dealing on a fair and equitable basis under the laws of Canada. We all have learned to have the greatest respect for innovative initiatives, not just since the accession of the Liberal government but over many years, in the province of Quebec. They have been as innovative with aggressive initiatives as has any province, with great respect.

Mr. Haggerty: Almost to a sovereign state.

Hon. Mr. Nixon: They were going that way and pulled back. That is one of the problems the financial community experienced. There were some major financial movers and shakers who decided they did not want to be in the province and did not want to be in Montreal under those circumstances. We are aware that this, to some degree, was beneficial for Toronto. It gave us quite a windfall lift, which we have supported now and under the previous administration in every reasonable way.

In the past, all of these competitive changes have taken place under what they call a level playing-field perception. For the government of Canada to bring forward an innovation that in this sense is discriminatory is what our objection is. We think that it is counter-productive as far as the development of Canada is concerned. While we are concerned about Toronto and Ontario, we are also very much concerned about Canada's place in the world. It is an important and growing one. Ontario wants to compete for that role on a fair and equitable basis.

Mr. Ferraro: Let the record show that nowhere is anybody going to say I can be accused of throwing a lob to my own Treasurer.

Mr. Chairman: Do you have a supplementary then that is not a lob?

Mr. McFadden: Treasurer, one of the things I find strange about this affair is that as we try to plumb the depths of the significance of this proposal, essentially we go from what seems like a pond with very little depth and nothing much to it, which our first witness, Dr. Brean from the University of Toronto, indicated this morning, through to the submission of the Board of Trade of Metropolitan Toronto, which indicates that it has ocean depths with tremendous currents and eddies that would have great menace for Toronto, if not Canada--

Hon. Mr. Nixon: Have you thought of writing poetry?

Mr. McFadden: I will try that next.

Mr. Foulds: It does not scan.

Mr. McFadden: It does not scan. You are a teacher, Jim, so I am going to defer to you on that.

Mr. Shymko: Do not be distracted.

Mr. McFadden: The thing that has struck me about this, from the start when it first came out and as it has developed, it just seems that no matter whether it has the depth of a small pond or a puddle or whether it has an ocean depth of significance, it is rather illogical or irrational not to involve Canada's major banking centre, unless as has been alluded, there are other reasons that are not banking or economic oriented.

I wonder if we could take a look at the poles that seem to be developing. As I understand it, if the federal proposition as it now seems to be forming is that it is basically only going to relate, as this mentions, to arm's-length, deposit activities carried out by nonresidents at arm's length and that the loans would have to go to nonresidents and so on, we are told by Dr. Brean that this would have what he described as marginal efficiencies with next to no impact on anybody and probably small employment implications. He refused to indicate what "small" meant, whether that was under 1,000, under 100 or whatever.

In terms of the new federal proposal that now has been said to the treasurer, would you describe it as basically having marginal efficiencies and small employment implications? Would that be an accurate impression or are we talking about something more in terms of symbolism, image and so on, that could have some major implications? I am trying to get at what we are talking about here in reality.

Hon. Mr. Nixon: I would say the latter, as far as I am concerned. I want to add a bit more. You are aware that the government of Ontario has opened up the province to international participation by financial institutions, really, 100 per cent. We are not the first province to do that. Quebec did it ahead of us. Going back to June, which is not a long period of time in the history of evolution, we thought we were leading in moving towards a 30 per cent allocation for international participation. We thought we were leading in the international scene. Within four or five months we found we were far behind initiatives taken by other jurisdictions. We countered that by saying, "If we are going to participate in the international scene, we are open for business." I do not see anything wrong with that.

This is an indication of how volatile these matters are. You understand that London took an initiative that drew all sorts of active participation in the banking community from a number of European centres to London and re-established, in my view, its pre-eminence. It had some problems with what it chose to call the Big Bang, but it took an aggressive stand that leaves it led it to be one of the pre-eminent, class one centres.

This is happening very quickly. The more I become involved in my present job, the more I realize that high finance, international finance, the banking community and so on, seem to be extraordinarily profitable for the principals, the people who work for it, but it is not much more of a science than many of the other things we participate in, including politics. It is very much an indication of perception based on awareness of where the best chance to do business effectively, i.e., make a profit, is. That is why I do not want to downplay the perceptual importance of the designation by the government of Canada.

From the start, when I took on the responsibilities of this job, international banking centres were something referred to in a list of briefing matters. It was indicated it was not particularly important because it appeared that all the indications were that it was not beneficial for Canada to proceed. Frankly, that accounts for our official surprise, my surprise, when the government of Canada, the Minister of Finance included it in his budget last February. It was almost as a throwaway, like the Ontario Institute for Studies in Education.

Mr. Foulds: A little double entendre.

Hon. Mr. Nixon: I thought I would say it before you mentioned it. If

there was a double throwaway, it was the inclusion of Vancouver. When you read a footnote to the people participating, there is some discussion, some indication that Vancouver was included as it went to press. Somebody said, "Let us do something nice for out west."

This is a perception. I am sure it is not the case but was based by the government of Canada after a careful review and decision-making process. So we were surprised since all the reports, which were quite objective, indicated that it would not be beneficial for Canada to do this. There it was. There has been no action taken. However, we read repeatedly that an announcement of regulation or introduction of legislation is imminent.

I also feel and say again that with each delay, the effect of the designation is probably further diluted. I hope that is the case and not just my wishful thinking, and that when the announcement comes, it will not have any substance of a nature that is going to be a call on our Treasury to fulfil our commitment to be sure that we maintain our competitive stance.

1140

Mr. McFadden: How would you feel about the idea that has been thrown out that Canada be designated as an international banking centre? Essentially, it would be up to the various communities in Canada to write whatever business they can through whatever banking institutions they have located in them. In that scenario, Halifax could write a certain amount of international banking business, as could Montreal, Toronto, London, Windsor, Winnipeg, Edmonton and Vancouver. How would you react to that? Rather than designate certain communities specifically, we would open it up so that Canada could be an international banking centre. It would not be geographically tied into any certain community.

Hon. Mr. Nixon: I would certainly prefer that to the exclusion of Toronto, but I would prefer that the government simply back off what I consider to be an ill-considered policy. I would welcome any initiative taken by the government of Canada that is going to put us further into the forefront of international competitors. There is no doubt that part of the buoyancy of the Ontario economy, with which we are all very pleased and of which we are proud, is based on the expansion of the service industry, particularly in banking and financial services. It has expanded tremendously and will continue to do so as long as it is not artificially interfered with.

Mr. McFadden: You said it was important that Canada be in the mainstream and able to compete in the international banking area. Are you suggesting the idea of international banking centres would not assist in that?

Hon. Mr. Nixon: I do not know that it would. There could be amendments to the laws of Canada that would make it more attractive here, but in fact, the Minister of Finance and his colleagues dealing with the financial institutions have taken very positive initiatives to improve that situation. I believe they have some others coming along, as do the governments of Quebec and Ontario.

This was certainly not done just to maintain competitive standing, although that was part of it. It is with the understanding that the international banking community is changing very rapidly, with the advent of computers and so on, where transactions take place on a 24-hour-a-day basis. Our major financial institutions downtown have staffs on duty 24 hours a day, so they are competing and participating in world markets every hour of the day

on behalf of their clients and principals. We would certainly not be serving our people and our taxpayers if we did not see that we were up to date and participating on the leading edge of this, as I believe we are.

Mr. McFadden: One final item I would like to ask you relates to the Quebec legislation. This morning we were given material relating to legislation passed by Quebec. It is contained in a release by the law firm of Ogilvy Renault. I assume this is an accurate summary of what is in Bill 2, passed by the Quebec legislature. I gather it went into effect, according to this, January 1, 1986.

Mr. Chairman: Actually, it was May 27, 1986.

Mr. McFadden: No, I just read "come into force effective."

Mr. Chairman: I know the document says that, but it actually did not come into effect until May 27.

Mr. McFadden: So this document is in error?

Mr. Bond: There may be something else in the legislation.

Mr. Chairman: It could have been retroactive.

Mr. McFadden: It was passed last year and came into effect in either May of last year or on January 1 of this year, but it is in effect today. Is Ontario planning any form of response to this bill, or is it going to sit back and see what impact it has? Do we have any feeling as to what impact this particular piece of legislation might have on Ontario one way or the other?

Hon. Mr. Nixon: I have found the officials of the Treasury, who are here--and the deputy minister is also present--to be omniscient in these matters. They certainly are on top of what is happening in other jurisdictions and provide advice. We are watching it very carefully and are prepared to bring in whatever legislation that is going to keep us in the forefront of competition nationally and internationally.

I cannot make any indication to you that legislation is pending. All I can say is that we are very alert to the fact that we cannot sit back and expect to maintain our competitive position just because we are so wonderful. We have to be sure that our provincial legislation and regulations are competitive and that this is presently seen to be a good place to do banking and financial business provincially, nationally and internationally. It is our policy goal to maintain and strengthen that position.

Mr. McFadden: I have one final observation. It appears that we run the risk in Canada that even if the federal government were to drop its concept of either designated international banking centres or some form of Canadian international banking centre, we could still be in a situation where individual provinces may create international banking centres. We may in the end be forced into this to protect our own position vis-à-vis Quebec or another province.

Hon. Mr. Nixon: Both jurisdictions, Ontario and Quebec, have pretty well opened themselves up to competition on a world basis. We still have a few minor restrictions simply giving our own houses a chance to establish themselves under the new rules before allowing, for example, international banks in on a 100 per cent basis.

While these matters are competitive, I think they are for the general good of Canada. I have no reservation about that; I am very enthusiastic about it. I do not believe we are going to be subject to balkanization on that basis; I really do not think so. I do not have anything further to say about that, because I do not know anything further about it.

Mr. Chairman: Mr. Foulds has a supplementary, and then perhaps Mr. Taylor can ask questions. Members of the committee, we do have some other housekeeping matters we wish to deal with.

Mr. Foulds: I was struck by the Treasurer's reference to the addition of Vancouver as simply an afterthought by the federal government.

Hon. Mr. Nixon: This is not factual; it is simply something I read somewhere in the general press in the background pieces associated with it. I do not know anything more about that than is generally public knowledge.

Mr. Foulds: As the sole representative on this committee from western Canada, Thunder Bay--

Mr. Chairman: Which wants to compete with Chicago.

Mr. Foulds: --I think the evidence of the previous witness indicates that Vancouver, in terms of time zone and placement, does have considerable claim to development as a financial centre simply because of its placement between New York and Toronto and Tokyo in the international markets. Although this may not be the right incentive or the right step, there is some validity in that argument.

Mr. Chairman: The committee might be interested to know that Mr. Blenkarn offered the opinion that the germ of this idea has existed in Victoria, BC, for a decade or so. It initiated with Wacky Bennett and then moved from Victoria to Vancouver.

Hon. Mr. Nixon: You mean W. A. C. Bennett.

Mr. Foulds: Michael Wilson and Wacky Bennett--what a financial pair we have there.

Mr. Taylor: Mr. McFadden asked about whether there was a provincial response to Quebec's Bill 2. The Treasurer's response was that he was eternally vigilant and would respond as necessary to whatever provincial action he experiences. I am paraphrasing, but I think that is what he said.

Hon. Mr. Nixon: I like your words better than mine.

Mr. Ferraro: You sound like the Lone Ranger.

Mr. Taylor: I was wondering whether the general response of the Premier in regard to the potential impact of the federal legislation--that is, that it would be met with provincial action where necessary--would equally apply to action at the various provincial levels, in this case, Quebec and Bill 2. I say that in looking at the advantages. Three principal advantages will be conferred on corporations operating an international financial business, and this is from the material we have been given.

with respect to that portion of their income reasonably considered as being derived from the operations of the IFB.

Again, as I say, picking up from Mr. McFadden, there may be more response required from provincial legislation than from this federal legislation; I do not know. I am just suggesting that there is that potential, and I am wondering if the general reaction of the Premier would be equally applicable to responding to provincial legislation.

Hon. Mr. Nixon: Mr. Taylor, I think you make a good point that the list that has been provided is much broader than anything contemplated by the federal government in its announcement, even though I feel it is drawing back to some extent. We are certainly aware of the interprovincial competition, which, I say again, is healthy and welcome, with Montreal or the province of Quebec in general.

We have a great deal of respect for the abilities of the province of Quebec, both now and in the past, to respond to the needs of the financial community in innovative ways. We are watching it very carefully and we do not intend to be outstripped in this regard. On the other hand, we do not intend to balance them in each particular as long as we feel that we can maintain a valid competitive stance in Toronto vis-à-vis Montreal.

Mr. Chairman: Thank you very much, and thank you, Mr. Nixon, for your input into our deliberations. We appreciate very much your taking time out of your schedule to come here.

I wonder if we could turn briefly to some other matters that are of a housekeeping nature, the first one being Mr. Foulds's motion, which was tabled at the last meeting of this committee in December and was adjourned last week to today, that future meetings of the committee be held on Thursday mornings beginning at 10 a.m. Are you prepared to deal with that now, Mr. Foulds? Would you like to speak to the motion?

Mr. Foulds: Just very briefly; we have been through the arguments. I think there was some validity to the committee's starting at 9 a.m. when we had a backlog and we thought we would be able to deal with a particular matter in a short period of time. But I think it is fair to say that if the committee, as the House leaders have decided, is going to meet regularly Thursday mornings, we should abide by the rules that other committees do and meet at 10 o'clock.

I think we are more likely to have prompt attendance at that time. Frankly, our caucus meets every morning at 9:30 a.m. for those who wish to participate in question period, and I find it difficult both to do the phone calls--I talk to my constituency office every morning--and to be in attendance at that meeting as well as at this meeting. Frankly, with only two representatives from our party on this committee, we would like to have our full forces here if at all possible.

Mr. Chairman: Does anybody else wish to speak now?

Mr. McFadden: I am not averse to a 10 a.m. start when we do not have much business. I must say, though, that, for example this morning, if we had started at 10 o'clock, we would not even have got through the board of trade yet. I do not know what is scheduled for next week.

I would be amenable to a 10 a.m. start if we had the right to meet

Thursday afternoons if the business of this committee required it. But my point is basically this, and I think it goes back to when we originally talked about the scheduling problem: Unless we have the right to meet at another time in the week--and I still feel Thursday afternoon is not unreasonable; whether we choose to or not would be something else--I do not think we can do anything close to a reasonable job, given the mandate we are supposed to have.

The work we are doing right now on the international banking centres is an example of the kind of work I understood this committee was set up to do. I do not believe we can feasibly do that in one and three quarter hours on a Thursday morning once a week. If we go back to the House leaders and get general agreement that we can meet on Thursday afternoon if the business of this committee requires it, then I will be agreeable to a 10 a.m. start, but so long as we are stuck just with Thursday morning, I think we should maintain the 9 a.m. start.

Mr. Ashe: It does not really seem to matter what the time is. I am not critical of this committee; it is every committee I have ever been on. They never start on time anyway. This morning, I came in to make the party quorum at about seven or eight minutes after and I think the next member arrived at 9:15 a.m. and so on. Times are somewhat academic.

I have the same concerns as Mr. McFadden. In our current agenda, we are operating more or less from nine until noon and that does not give us much time. Frankly, as much as I prefer to have a chance to look at the morning paper, to catch up on some phone calls and go through late mail, etc., as much as anybody else, I think we should still stick with the nine o'clock starting time as long as we are sitting under the operating House activities. Having said all that, I think that when we get our total allocation of time we are going to have in the off-session, when we have each and every day for a certain period of time, we can then move to the more traditional start time of 10 o'clock and reconsider our position.

If and when there is a new session starting some time in April or whenever it may be--you will notice I said "if and when"--we can re-examine our position again at that time. At the moment, we should stick with the nine but be prepared to move to 10 for the off-legislative sittings of this committee.

Mr. Cordiano: I know I will not speak for my colleagues. I have a difficult time getting here on Thursday mornings at nine o'clock, but I can see the wisdom of trying to allocate that additional hour to the business at hand we must deal with. It is very difficult. Like Mr. Foulds, I cannot get here at that time on Thursday mornings. It is probably peculiar to my own schedule but I find it very difficult. There always seems to be something very pressing that comes up on Thursday mornings. It is just the way my office is run.

We should reach some sort of compromise on this because I do not think the House leaders will give us additional time, to be honest with you. That is my opinion. I think there are 13 committees at present. It is virtually impossible to have those committees filled with government members; it is not going to happen. I do not think we are going to be granted additional time. We should probably try to be as flexible as possible with the time we have and make it such that we start at nine o'clock when we absolutely must, and if we do not have to, then we should start at 10 o'clock.

Mr. Chairman: I do not want to interfere in the debate, but the

chair has heard rumours to the effect that the House leader is looking for more time for us. I note that when we appeared in front of the House leaders on one other occasion, screaming that we had too much work on our plate, the fact that we had taken the initiative to start at nine o'clock was pointed out as a factor in our favour. The chair is a little worried that if we reverted to 10 o'clock, they might forget about finding more time for us.

Mr. Foulds: On the other hand, it might put more pressure on us.

Mr. Chairman: Not necessarily.

Mr. Mackenzie: I just want to endorse what my colleague has said. I find it difficult being here at nine. It is a practice that has not been very common in terms of committees, so I am not sure it was a good move on our part to begin with. If we have to stretch out the hearings to a second day in a situation such as today's, then that is the situation we are in--a second week. Regardless of whether they give us more time, these meetings should start at 10. As far as I am concerned, as much as I like the work of this committee, I find that the calls I have to make on my constituency problems are much more important. I urge that we revert to what is and has been the normal practice for most committees and start at 10 o'clock.

Mr. Chairman: Is there any other discussion?

All in favour of the motion? Opposed?

The vote is tied three to three. The chair votes to reject the motion.

Motion negatived.

Mr. Chairman: I have a couple of other matters. One pertains, to some extent, to the discussion we have had this morning. Bill 116 is before this committee. The ministry is anxious that it come out of the committee some time during the current session, if possible.

We are being called to a vote. Would it be possible to adjourn the meeting and come back after the vote?

Interjection: I have a luncheon appointment.

Mr. Chairman: All right. Can we deal with this very quickly? I would like to get Bill 116 on the plate. Can we have a subcommittee meeting some time in the next few days at a date to be arranged, perhaps as soon as possible, among representatives of the subcommittee? That is just an announcement and I will leave it at that.

Mr. McFadden: Can I clarify one point? Are they suggesting that we go clause by clause through Bill 116 and report it back so that the House can deal with it before February 12?

Mr. Chairman: Not necessarily before February. That is impossible; I have explained that is impossible. It would be just as soon as we can get it on and I think it would have to occur during a recess.

Mr. McFadden: That is a massive bill.

Mr. Chairman: Yes.

I have received an invitation from the Brookings Institution to attend a conference. I received the invitation as the chairman of the select committee, and the conference, essentially, has to do with the free trade issue. The invitation has come, in a convoluted way, back to this committee to discuss whether you wish to send me. The agenda is excellent. It is a one-day conference and the clerk predicts that I could make the trip to Washington on less than \$1,000. It is February 3.

Mr. Taylor: Where is it? Washington?

Mr. Chairman: Washington. I might indicate to the committee that I still am receiving--as are some other members of the committee--invitations to speak on this subject as a result of the work of the select committee. I was doing that just last night in London.

Mr. Taylor: Can you go?

Mr. Chairman: Yes.

Mr. Taylor: Then you should.

Mr. Foulds: I think it is an important topic for the country. I think it would also be useful if we sent one representative from each of the other parties. I think it might be useful to send Mr. Mackenzie who has been on this for us for a long time.

Interjections.

Mr. McFadden: I certainly recommend that you go, Mr. Chairman. To raise an issue that I think we should address somewhere along the line here, one of the things we should activate in this House is the recommendation the select committee made about members of this House and members of this committee interrelating with legislators. I was drawing to the committee's attention that in the first week in March, the House of Representatives is going to be marking up the new trade bills.

Clerk of the Committee: You must have a motion to send the chairman.

Mr. Chairman: Mr. Taylor moves that the chairman of the standing committee on finance and economic affairs be sent to Washington.

Motion agreed to.

Mr. Foulds: I assume you will report back to us.

Mr. Chairman: Yes, I will; most definitely.

The committee adjourned at 12:04 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION

INTERNATIONAL BANKING CENTRES

THURSDAY, JANUARY 29, 1987



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)
Ashe, G. L. (Durham West PC)
Cordiano, J. (Downsview L)
Foulds, J. F. (Port Arthur NDP)
Haggerty, R. (Erie L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Ramsay, D. (Timiskaming L)
Stephenson, B. M. (York Mills PC)
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Partington, P. (Brock PC) for Miss Stephenson

Also taking part:

Polsinelli, C. (Yorkview L)

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service
McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:

Radwanski, G., Special Adviser to the Treasurer, Service Sector Study

From the Ministry of Financial Institutions:

Kwinter, Hon. M., Minister of Consumer and Commercial Relations and Minister
of Financial Institutions (Wilson Heights L)

From the Ontario Securities Commission:

Beck, S. M., Chairman

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 29, 1987

The committee met at 9:10 a.m. in committee room 1.

ORGANIZATION

Mr. Chairman: Good morning. We have just a few housekeeping matters to deal with before we get started. We had a meeting yesterday of the subcommittee to discuss scheduling. We came to some tentative conclusions, and a memorandum has just been distributed by the clerk to you with regard to those conclusions.

It was thought that we would complete our evidence this morning on the international banking centres activity and conceivably write a report this morning but, perhaps more realistically, have that report finished next week, February 5.

We discussed the fact that pressure is being put on us by the whips to restrict the amount of time we sit during the break period. Those decisions are being made this morning and next Thursday morning at the House leaders' meeting. The problem is most acute in the Liberal caucus in that there are now 14 committees sitting. Apparently, 60 people have to be assigned to posts, and we have 25 people to assign to them. In any event, it may be that this impasse is being resolved; I am just not sure. But you received yesterday a memorandum that I wrote to the whips in response to one I received from them in that regard.

We discussed as well the fact that we are getting pressure to complete Bill 116. That pressure is coming from the Ministry of Financial Institutions as well as from the private sector. As well, we have not finished our corporate concentration report, which we promised the Legislature we would have this spring.

The thought was that we should request time immediately, as soon as the break begins, to hold our budget hearings, as opposed to trying to hold them later, because if we did not get around to holding them until April, the impact they would have on the budget decisions would be less; and that we should, therefore, attempt to sit as soon as the House breaks for a period of perhaps four weeks and complete those hearings at that time.

We have had 31 written submissions so far, which is fewer than we expected. In that regard, there is some major input that is not included in those submissions, so Mr. Carrozza is going to write some letters specifically to major organizations asking them to provide us with some input.

We also thought we would attempt to clear the decks a little bit next week if necessary to have Mr. Kwinter come back and discuss with us the extent to which we are going to have to have clause-by-clause input and the extent to which he thinks there should be input in the hearings with regard to Bill 116. As well, the Trust Companies Association of Canada obviously has some concern about this. So if the committee agrees, we will have some time for that discussion next week, and it may be that Bill 116 is not the horrendously time-consuming problem it seems to be on the surface.

In response to that, Mr. Carrozza has prepared this memorandum. It is necessary that we pass a motion to facilitate the House leaders granting us more time than they otherwise would. If we do not pass a motion, we cannot expect more than about four weeks.

Clerk of the Committee: If they approve this, it is in here.

Mr. Chairman: Yes. If you approve this memorandum, then it is in there, although I would point out that it says, "three weeks, after March 15 break." It is scheduled that we come back on the Tuesday after Easter, which is about April 21, and there are four weeks there. So if the committee would prefer to put four in, we can still sit only three if we get our work done. We can always sit less time than we are allotted, but we cannot apprehend time after the fact.

Mr. McFadden: Just two things: I think we should ask for the longer period knowing they are going to cut it down. We are reasonably certain that we will not be given everything we are looking for; but certainly if we do not have it, we cannot use it.

The other point I would just make in relation to the memorandum is that the first paragraph after point 4 mentions presenting our report to the Legislature on February 5. That is next Thursday. I suggest an amendment to that saying "by February 12," in that we will not see a draft of our report to the Legislature until next Thursday. If it required amending, rather than get ourselves on this kind of tight timetable, we should say, "by February 12," which is the projected adjournment date. We will have at least reported by then. We are just finishing our--

Mr. Chairman: We can still report on February 5 if everything works smoothly.

Mr. McFadden: Yes, but I think it would be better to say, "by February 12," which gives us the extra week if we have to work through the report a bit more and refine it.

Mr. Haggerty: I was just following Mr. McFadden's comments, and I concur with him on that particular matter. Looking at four weeks for the agenda, there is no possible way we are going to complete what you have proposed here in this agenda in four weeks. Even if you get into Bill 116, you may spend a whole week or maybe two weeks on it.

Mr. Chairman: Yes. That is why we must ask for more time.

Mr. Haggerty: If we get into the budget review, we may be looking at three weeks on that alone if you want to get into it in detail.

Mr. Chairman: What this proposes is that we take four weeks on the budget review immediately after the break. There will be a March break where we are not allowed to sit--the third week of March--and then we ask for another four weeks, which would permit us to do Bill 116 and finish up corporate concentration. If we can do all that in less than eight weeks, fine, but we certainly would have to have more than four.

Mr. Haggerty: You can compress it to some degree if you are going to sit in the evenings. That should be taken into consideration. You may get two or two and a half hours in the evening.

Mr. Chairman: I may have extended myself in my memo back to the whips in suggesting that we were prepared to work longer weeks than most committees. I have not really received overwhelming endorsement for saying that, but that could involve evenings. I was thinking that sometimes committees work only three days a week. I would be suggesting that we work at least four.

Mr. Mackenzie: Some of us have fairly active ridings, too. I know where I am going to be.

Mr. Chairman: In any event, perhaps we could put this on the floor and somebody could move that it be adopted, perhaps with the amendment Mr. McFadden has made and the amendment in the last paragraph to change three weeks to four weeks. Does anyone wish to move that? Mr. McFadden.

0920

Mr. Taylor: That is Tory power.

Mr. Chairman: That is Tory power. Any other discussion?

Mr. Mackenzie: I do not want to delay it or move any amendment, but I wonder realistically if you should talk to the Premier (Mr. Peterson). I believe that corporate concentration was his initiative. You are whistling Dixie if you think you are going to get a report out on corporate concentration with the schedule you have here, or even come close to it.

Mr. Chairman: A lot has happened since we were asked to do that report. Initially, we were asked to work on that report last spring and summer, and it was our choice to finish up the trade report. To some extent, events on corporate concentration passed us by.

Mr. Mackenzie: I think the arguments are more valid than ever. Perhaps the priority is not--

Mr. Chairman: Mr. Mackenzie, are you suggesting that someone on high should tell us we should not bother to finish the report?

Mr. Mackenzie: No; I am suggesting that you should try to get a clear indication from the Premier about how much importance he now attaches to it.

Mr. Chairman: All right.

Mr. McFadden: The point Mr. Mackenzie made is one that came up at our scheduling meeting yesterday. When you look at the financial institutions sector, we spent four to five weeks in hearings. Since we stopped our hearings, the whole world has changed. The provincial government's regulations of the securities industry have changed. The new federal white paper is out.

If we are to go ahead and look at corporate concentration, we will not only have to look at the way things are now but we will also have to see if the submissions we received in the fall are still relevant in the spring. It would not be a matter of just reviewing what we now have and coming up with a report based on that, because the information we received from the various witnesses was based on a completely different regulatory and legal framework. It would require some rehearing; there is no doubt about that.

Mr. Chairman: Then are you suggesting that we should not be recommending--

Mr. McFadden: I think we should go with what we have done. I think this is order of priority, though.

Mr. Mackenzie: I would not change the recommendation, but it might pay for the chairman to find out how much importance the Premier is now attaching to corporate concentration.

Mr. Chairman: The message has been received. Is there any other discussion on the motion? All in favour?

Motion agreed to.

INTERNATIONAL BANKING CENTRES

Mr. Chairman: We appreciate you coming forth, Mr. Radwanski. We have read your report on the service sector with some interest. In particular, you commented on the problems of international banking. As you know, that problem has exacerbated itself in the past several days, and particularly yesterday, with the tabling of the act for legislation in the House of Commons.

Members of the committee should be aware that the research staff and the clerk have finally taped the message of Mr. Wilson when he tabled the legislation. It is available for our perusal, and that is the closest we will get to actually interviewing Mr. Wilson. He said that he felt, among other things, that this legislation would enhance Toronto's position in the financial market. It may be of some interest to the committee to try to determine what he meant by that.

Welcome, Mr. Radwanski. Perhaps you could enlighten us a little bit as to what this legislation is going to do and what we should do, if anything, to react to it.

Mr. Radwanski: Good morning. I appreciate the opportunity to be of whatever help I can on this issue. It is a very important one for Ontario. To avoid any possible misunderstanding, I should make it clear that the work I have been doing for the past year and a bit has been in the nature of a report to the government as special adviser and not statements of the government or from the government. In that sense, although I do not think there are any great divergences of view, I should emphasize that I am not necessarily, in any given comment I make or in anything I say today, speaking for the Treasury or for the Treasurer (Mr. Nixon) or anything of that nature.

Mr. Taylor: I am sure you keep your skirts clean.

Mr. Chairman: I hope I did not misstate anything. Certainly my understanding was that you were retained to give them information.

Mr. Radwanski: No, that is fine. I feel freer to say whatever under that caveat.

My view of the issue, as you know from the reference to it in my service sector report, is that it is a totally misguided initiative on the part of the federal government. I have not seen any clear justification for an international banking centre initiative that would exclude Toronto come out of Ottawa. Frankly, I have not seen any persuasive justification for an

international banking centre initiative, period, but certainly nothing has come out of the federal government explaining why it is reasonable, sensible or sound policy to exclude Toronto. The most there has been in any pronouncement from them are remarks to the effect that Toronto will not be hurt or that it will benefit, but they have not addressed any substantive justification.

My own view of it, which I am sure you have also heard from others, is that it has the potential to be extremely harmful to Toronto and, through that, to Ontario by virtue of the incentives being provided to locate business in Montreal and Vancouver. My main concern in this regard is Montreal rather than Toronto, even more, in my view, because of the signal being conveyed. I think it is an extremely significant signal that the federal government--particularly, I should add, over the kind of vociferous opposition there has been from the Ontario government, the city of Toronto, the Toronto business community and even from the banking community--in the face of all that, goes ahead with a designation that says, "We want Montreal and Vancouver to be international banking centres, but not Toronto." That is sending out a message that can easily be taken as indicating the government wants to see some shift of activity away from Toronto even beyond what the bill itself will cause. That would be enormously damaging.

My overall view of the issue is that I cannot see how it can be characterized as anything other than a politically motivated initiative by the federal government, in the sense that certainly no justification has been offered on economic grounds. If that is the case, and I think it is, then, in a sense, the only hope for an effective response or a dissuasion of the government from proceeding is in the political realm also. If the objective is to curry electoral favour in Quebec, then the degree to which Ontario can succeed in sensitizing the Ontario electorate to the fact that the federal government is contemplating something contrary to the interests of this province is basically our best hope, in the sense that our best hope is to have a perception on the part of Mr. Mulroney and his government that it would be politically costly for them to do this, so they might then be dissuaded.

There are, of course, things Ontario can do to try to counter the actual tax breaks. That has been raised and discussed. I think there is no question that if the federal government proceeds, it is an attempt we will have to make. I think we would be misleading ourselves on the one hand if we thought the kind of initiatives Ontario can take, which would be breaks and sanctions of one kind or another, could totally offset the damage done by the fact of designation, that psychological or signal aspect.

To some degree, if we agree it is important to address this as a political issue, we have to be a little careful not to convey an impression that Ontario can fully counter this through its own initiatives, because that makes it too easy for the federal government or proponents of this thing to say: "Ontario says it can take remedial measures if we do this. That is fine. We will do this, Ontario will do its thing and we will live happily ever after." I do not think it is that simple.

That really summarizes my view of it. I will be happy to answer any questions or discuss whatever there may be to discuss.

0930

Mr. McFadden: One of the things we have tried to get a handle on is what we are really talking about when we talk about international banking

centres and whatever impact they might have. Were you, during your research, able to determine any specific impact?

We have been told by a professor who was here with us last week that, on the one hand, it might have no impact or next to none; on the other hand, the Board of Trade of Metropolitan Toronto feels that while it may not have a dramatic employment impact, psychologically it may be something major. It was not quite sure but it felt it could become a major matter in the long run. We have asked the banks to come here to chat with us. They do not seem to want to come to see us.

I would like to know the impact. Do you believe it is mainly a psychological one in the sense that it is the downstream effect of not being an international banking centre that could hurt Toronto or do you see an immediate short-run effect in the sense that some operations of the financial institutions might shift to another city? What do you think is the major danger? I am trying to get an idea as to the impact we are really talking about, in specifics rather than generalities.

Mr. Radwanski: I think the answer to your question is that it is both. The obvious problem is that it is virtually impossible to predict what effect this kind of measure, which has not really been attempted this way anywhere else, will have.

There is a danger that in combination with the incentives that the Quebec government itself is already putting in place, some existing activity might shift over to Montreal. The greater danger, greater only in the sense it could snowball and become a more damaging danger in the long term, is the perception that the federal government wants activity to shift to Montreal, because it is doing this and excluding Toronto.

Beyond that, the way I approach it is to say that either this initiative by the federal government is meaningful or it is not. If it is not, then one would think that in view of the very grave concern that has been expressed by the Premier (Mr. Peterson) and the government of Ontario, by the financial and business communities in Toronto and even by the banks themselves, it would not be unreasonable for the federal government to back away from it. Quebec presumably would not mind that much if there were no great impact involved.

If it is meaningful, it can be meaningful only in a way that is adverse to Toronto's and Ontario's interests. At the risk of adding another analogy to the many that have been tossed around on this issue, if one spots a burglar preparing to break into one's house, one does not worry too much about how much he might steal or hope that he will not take the best stuff; one tries to discourage him from entering by whatever reasonable means are available. I guess that is as close as I can come to answering that question.

Mr. McFadden: Another proposal we have received is that rather than designating specific localities or municipalities as international banking centres, the federal government could simply create a Canadian international banking centre concept and that banks in any community across Canada from Brandon to Halifax to Montreal, Toronto or Vancouver could qualify for special tax treatment if they were attracting this kind of nonresident business and lending to nonresidents. Why designate a municipality? Why not just make it available to Canada and it would be up to the various banks across Canada to decide where they chose to transact this kind of business?

Mr. Radwanski: Certainly, the countries that have international

banking incentive-type provisions do it on a national basis, not a city basis. I agree entirely that if the federal government wants to get into this kind of incentive gimmick at all, the only decent and fair way to do it is on a basis where it is open to any Canadian city that wants to be in on it and that lets the banks set up as market forces dictate. That being said, I am not personally persuaded that the whole tax incentive gimmick on banking centres is a particularly smart one, but if it is going to be done, then decency, good government, etc. dictate that it has to be done on a nondiscriminatory basis and not on one that excludes what is in fact Canada's banking and financial centre.

Mr. Taylor: You have mentioned the shifting of business. The impression I have had so far is that very little of that would occur, not an impression from you but an impression I have received as a committee member. The other aspect is where new business would be attracted, that it is not a question of shifting what is here now but whether there will be a greater attraction for new business to go to Montreal or Vancouver. I do not know whether in your mind that is more important or whether there is a greater potential there than an actual relocation of Toronto-based businesses. Could you comment on that?

Mr. Radwanski: As I said earlier, they are both risks in this sense: If it becomes desirable, let us say because of the incentives, to switch the booking of international transactions in the first instance that now is done in Toronto to Montreal, it might also follow at some point to say for a given bank, "Why not switch over the international division to Montreal?" In that sense, there is a possibility. More important still is the kind of synergy created around financial activity that could cause some movement, and even more, some attraction of new activity to Montreal. The greater risk is the latter one that more new business would be attracted there.

One thing one has to factor into the equation in talking about what you would call the psychological dimension is that banks in this country, after all, are federally regulated. When the federal government, in the face of all the static it is getting, proceeds with a designation that on the face of it seeks to build up Montreal at the expense of Toronto, there has to be a little concern that the banks, which are obviously to some degree dependent on the goodwill of the federal government, might take that as a signal to look at focusing more of their activity there. The international community generally, being guided by a signal it is getting as to where the dynamics in Canada are shifting, might be inclined to put new activity there. It is unmeasurable, but it is a set of risks that concerns me, particularly because it is unnecessary.

Mr. Taylor: How would you see the initiative already taken by Quebec with its legislation in terms of giving some advantage to location there? I think we discussed a bill last week that indicates action has already been taken. Ontario is threatening action, but Quebec has had it in advance of the federal move. How do you perceive that and do you see that as effective?

Mr. Radwanski: Obviously, they think it is or they would not do it. I am inclined to think that the kind of initiatives taken by Quebec would not in themselves be strong enough to offset the market realities and the status that Toronto and Ontario already have as a financial centre. Some of those things, for instance, tax breaks for employees and all that, I do not think would be taken very much into consideration by businesses looking at where to locate. They might help at the margins but I do not think they are that significant. The combination of those initiatives and the federal government, in effect, saying, "We would like to see Montreal built up and we will not

look as kindly on Toronto being built up," could be potentially quite significant.

Mr. Taylor: I guess there are fundamental business and economic reasons for doing business anywhere, wherever it is in the world. Of course, Canada is an immense country with a great deal of regionalism, not only across the country but within Ontario. As you know, Ontario discriminates in terms of advantage when you have a region as opposed to another region, whether it is northern Ontario or eastern Ontario, in terms of incentives to business to locate. We have a number of corporations, as you know, such as the Eastern Ontario Development Corp.

Mr. McFadden: Toronto is being discriminated against all the time.

0940

Mr. Taylor: It is government policy, and it is not new to the present government, to decoy development, if you will, away from Metropolitan Toronto and to encourage development and economic activity in the generation of jobs in other parts of the province. If you have the responsibility in a federal sense of balancing the interests of eastern, western and central Canada, then they become very serious political realities and, I suppose, economic realities.

The statement was made last day, as I recollect it, by an advocate of the banking community's position from the Board of Trade of Metropolitan Toronto, that the centre of gravity in terms of finance was shifting to the west through Canada. I sense there has been a great shift from London to New York to Tokyo so there is a greater emphasis now on Tokyo. You will see a shifting in a historical sense. I do not know about the historical imperatives or the dialectical--

Mr. Mackenzie: Maybe we should have him lobby for us.

Mr. Taylor: I do not want to get into those kinds of political economics debates. I looked at the members of the New Democratic Party when I said that because of their doctrinaire attitudes.

I am wondering whether you can comment on that and on whether this type of action might better position western Canada if there is an historical shift to the west. It would position Vancouver, for example, in a better position to take on the responsibility of dealing and competing with Tokyo in the sense of the Pacific Rim.

Mr. Radwanski: I think you raise some very good points. On the first point, I personally am a great believer in regional development policies, whether in a national context or in the Ontario context, provided that they are intelligent and fair. In the case of this banking initiative, I have trouble on both scores in the sense that when it comes to banking, I do not know of any country that has two major financial centres among its cities. For the most part, one city tends to be pre-eminent as a financial centre. There is a danger in Canada's case, if we try to apply regional development policies to banking and the financial industry, of fragmenting to the point where we lose all critical mass and the opportunity to keep Toronto as a major second-tier financial centre.

Because it is such an unorthodox approach in this area, there is also the possibility of so confusing the international community that it decides to

play it a little cool with regard to any new initiatives in Canada in that area until we get our act together and figure out which way the fight is going to settle. In that sense, I do not regard this as the most appropriate kind of regional development incentive.

On the question of Vancouver's role and so forth, I think there is a legitimate way that Vancouver could stand to play a role regarding financial trade with the Pacific Rim countries and so forth. It would be welcome. Maybe Toronto cannot get some of that type of business, but that can be addressed quite nicely without international banking centres.

I am not sure they are really necessary, but if we are going to have them, the kind of thing you are describing could be addressed perfectly well on the basis of an approach that either includes Toronto in the designation--you designate all three cities; you do not exclude the major existing centre--or by a kind of open-ended one that says any city or province that wants in can get in. To the degree that the centre of gravity is shifting or that there are particular opportunities for a west coast financial centre, this would not be removed by doing that.

Mr. Chairman: I have a supplementary to that. There was a suggestion that Los Angeles is a growing financial centre and that perhaps Vancouver, as I understand it, might be complementary to Tokyo and competitive with Los Angeles as an eastern, Pacific Rim banking centre, and that therefore there might be some merit in giving it some clout. Does that make sense?

Mr. Radwanski: It could. Certainly I would not have, and I do not think Ontario would have, any particularly vigorous reason to object if the federal government included Toronto in the designation, thereby giving Vancouver whatever opportunity it could capitalize on but not precluding us from responding to market forces ourselves, or if the federal government made it open-ended. I do not see that the scenario you are describing would justify or require excluding Toronto from a designation. I think that is really the key point. At this stage, arguing the merits of designating Montreal or Vancouver probably is not going to get us very far, but I think it is not only legitimate, but imperative, for Ontario to argue most vigorously that if anybody is going to be designated, we have to be among them or we should not designate anybody.

Mr. Chairman: You would not suggest designating Vancouver alone and leaving out Toronto and Montreal?

Mr. Radwanski: No, again for the same reason. Toronto is Canada's financial centre and any kind of federal intervention that does not include Toronto can only be taken as a signal that there is a willingness to have action shift. I just do not think that is right and I do not think it is economically desirable in terms of maintaining a certain momentum and synergy.

Perhaps I may interject one thing here, because I do not know whether it will come up in other questions, one of the other concerns obviously is the degree to which we get into divisiveness and excessive interprovincial competition, in the sense of tit for tat and so on. Sure, right now we can talk about a change in tax breaks. When we have exhausted that, are we going to get into a competition as to who will provide a looser regulatory environment? One of the things that worries me that this kind of thing starts to encourage at a certain point is, "We will give you more freedom in this area; we will match you by lowering this regulatory restriction," and/or eventually do we then start having the kind of option where we are competing

with each other in the laxity of our regulatory enforcement to attract certain types of business? There is a point at which we can get caught in a spiral of competition that can ultimately end up diminishing confidence in the stability of our whole financial system and damage us all.

Mr. Taylor: Quebec has already started that.

Mr. Radwanski: Left on its own, what Quebec is doing does not strike me as enormously dangerous.

Mr. Taylor: It is a provincial response, though, and what will be left to Ontario is a provincial response, assuming the legislation goes forward in Ottawa.

Mr. Radwanski: If the legislation in Ottawa goes forward, yes. What I am saying is, if the federal government does not get into stuff that excludes Ontario and forces Ontario to go far out on its own in trying somehow to control the damage, then that potential spiral is not given that extra momentum. My concern is that we not get into an escalating situation for really no good reason.

Mr. Taylor: Are you suggesting that Ontario not respond as suggested by the Premier? I do not want to tiptoe around the problem here.

Mr. Radwanski: No, I am not saying that at all. The Premier said that if the federal government went ahead with this, we would have to respond, and I do not doubt that we would have to. I said, first, that if we did respond, I doubted it would be within our capacity totally to offset the damage, and second, that I would be personally uncomfortable with Ontario being forced by what I would say would be federal stupidity in this instance into a position where it had to respond in ways that could set off a further spiral and might even provoke retaliation from other financial centres, such as New York.

Mr. Taylor: You are saying the province should respond?

Mr. Radwanski: I think it would have to. As I said before, if a burglar tries to break into your house, first you try to deter him. If you cannot, you try to minimize the damage he is going to do when he is in there. I prefer not to have it happen.

Mr. Taylor: Contrary to your view, I would rather have the burglar take the cheap junk than the good stuff. Maybe that is wishful thinking.

Mr. Radwanski: I do not think it is contrary to my view in that respect.

Mr. Taylor: I was thinking of your initial analogy and I was hoping the burglar might not recognize the valuable items.

Mr. Radwanski: I prefer to keep him or her out.

Mr. Taylor: I agree with that; obvious prevention.

From what you are saying, the province would have to respond, assuming this legislation goes ahead. We are not sure to what degree that response would be helpful.

Mr. Radwanski: I think it would be better than nothing. If we end up in a situation where the federal government is adding incentives to relocate or locate new business in Montreal rather than here, it would be imprudent and irresponsible in a sense for us not to do everything in our power to try to offset the damage. We would be kidding ourselves to think we could totally offset the damage because we can counter a financial break, but we cannot counter the efficacy or possibly efficacy of a signal from the federal government.

I am not saying we should not respond. I am not saying we would be wrong if we respond. I am saying let us not kid ourselves or permit the federal government to argue that a response from us would solve the problem, because it would not.

Mr. Taylor: I understand partially that what you are saying is there would have to be some problem with the feature or Quebec would not have proceeded with its provincial legislation even in advance of the federal initiative.

Mr. Chairman: Mr. Taylor, could you sit up please.

Mr. Taylor: For purposes of the record, I gather I am not being transmitted through the microphone as I should be. For purposes of the audience, it is not the teacher's check for slouching in my chair.

With these provincial initiatives in addition to the federal, I am wondering, whether you would anticipate additional initiatives from British Columbia for Vancouver. I sense what you are talking about is a provincial legislative response which might not be all that helpful in the total because of the competition.

Mr. Radwanski: I would have been happier if Quebec had not done what it did in the first place. In a sense, Quebec has little to lose in that it does not have very much of that business now. It is trying some initiatives to get something going. That alone would not be enormously damaging to Ontario. In combination with the federal acts, it could be damaging.

We would hope that whatever response Ontario takes initially would be a measured one, if it happens, and that we would not get into doing anything silly. I think one has to hope that the thing does not get away from us overall. I think the best way to keep the thing from getting increasingly divisive is for the federal government either to back away from the whole notion, which would be optimal, or failing that, either to expand it to include Toronto or open it up in a sense of saying any interested city or province can qualify and in that way keep the thing from becoming infected with enough resentment and ill-will all around to cause more problems.

How we get from here to there is the big question. My view is it is political. It is important that those of us who are concerned make that message very clear to the Ontario electorate, the Ontario public, and make it clear to the federal government that if this does go ahead, the Ontario public would be reminded of it consistently and there may be a price to pay.

One way, for instance, that message might be conveyed--and I am speaking only for myself--is that the next step might be an all-party resolution in the Legislature calling on the federal government either to desist or at least to include Toronto if it is going to do this. I think it is desirable that it be

clear that there is no question but there will be a political downside in Ontario for the federal government if it proceeds with this idiocy.

Mr. Chairman: I thought you were going to say one way it might be done would be an election writ.

If I may, Mr. Taylor, we are running short of time. Mr. Cordiano and then Mr. Haggerty have questions.

Mr. Cordiano: It seems clear from the statement Wilson made yesterday that the legislation is indeed a watered-down version in the sense that it attempts to satisfy all. It probably will not satisfy anyone, because in the end I get the sense that we have two centres now declared somewhat as international banking centres. The international community probably will not want to deal with either one. Because of the watering-down effect, they are not necessarily getting a full, complete package of services at either one of those centres. We have discussed the mixed signals we are sending around the world for the last half hour.

It seems to me that the policy the federal government, the Mulroney government, has come up with is to try to placate different regions. Having gone halfway, realizing halfway down the road that they have certainly angered Toronto, and probably realizing themselves that this was ill-conceived and ill-considered, they are going back in a boomerang type of effect.

I am concerned that they really do not know what they have done and have not understood the ramifications, not so much of the tax implications for Toronto or for the other two centres in a positive sense, but that there is a real rudderless ship going nowhere. That is probably more damaging--I kid you not--to our foreign partners than the image we present to our foreign partners and trading partners.

Mr. McFadden: How come the dollar keeps going up if it is a rudderless ship? Obviously, there is a lot of confidence in Canada.

Mr. Cordiano: No, I do not think so. I think it is just a question of the American dollar going down.

Mr. McFadden: No. We are going up all over the world.

Mr. Cordiano: It is simply a case of the American dollar coming down in value. It is not anything we are doing as far as policy goes. I do not see that happening.

Interjections.

Mr. Cordiano: No, I said foreign policy. There is only one government responsible for foreign policy, the federal government.

Mr. McFadden: Foreign policy? What kind of foreign policy--

Mr. Chairman: Let us hear the witness answer.

Mr. Radwanski: The temptation to deliver a critique on the overall performance of the federal government is great. God knows, I did a lot of that in my earlier incarnations as a journalist. I do not think it is a temptation to which I should yield now, other than to say I agree with you that on this issue that they clearly have not shown any sign of knowing what they are doing

understanding the potential dangers. The fact that they have watered it down, to whatever degree they have, does not remove the fundamental source of the damage, which is a signal from the federal government that it is designating cities other than Toronto as financial centres. I maintain that is enormously damaging.

As Ontarians and as concerned Canadians, we should be going very much to the ramparts to make sure people know how damaging and how wrongheaded it is and try to get them to back off. We or circumstances have gotten them to back off already. This is not a government that has historically shown an enormous tolerance for political pain. They do tend to back off in the face of strong pressure. I think it is incumbent upon us to ensure the continuation of the perception of potentially escalated pain if they persist on this issue.

Mr. Cordiano: In fact, the danger is that once they felt a little pressure, they did back off. If their intention was to make Montreal and Vancouver international banking centres, then they really have not accomplished that. Therefore, this country will be behind the eight ball, lagging behind other countries, which are getting their act in gear and designating one centre as an international banking centre. We are all over the road map here with this initiative.

Mr. Radwanski: I do not disagree with you.

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Mr. Cordiano: I suggest Montreal and Vancouver will probably not gain much in terms of international business because there is going to be quite a lot of confusion in the international banking community, at least initially.

Mr. Radwanski: I do not know how much Montreal or Vancouver would gain. I am satisfied in my own mind that we stand to lose, maybe for no gain for anybody else or maybe for their gain at our expense. Either way, I am agin it.

Mr. Cordiano: Either way, we have lost.

Mr. Haggerty: I was listening to the discussions this morning and just browsing through the document that was presented by our staff this morning. Have any studies been done about what advantages and disadvantages there are for Canadians? I am not talking about the banks; I am talking about Canadians whose investments and savings are put into the banks. The banks play with that money. Of all the countries in the world, Canadians are noted for being the most prudent individuals in their savings. It is a good source of revenue for the banks.

With the international banking centres we are talking about and with the tax concessions, whatever they may be, what is the lost revenue in this area where somebody comes and does business in Ontario and across Canada and does not pick up his share of the cost of operating here in Canada? Other businesses or corporations have to pay a corporation tax, and we allow this manoeuvre of international banking centres to circumvent paying taxes. What is the lost revenue in this area? What are we looking at?

Mr. Radwanski: If Ontario were to match the federal initiative in terms of providing a similar tax break in Ontario--and it is a guess again,

obviously--the estimate was that the cost would be in the range of \$10 million a year in forgone revenues.

Mr. Haggerty: It would be \$10 million a year?

Mr. Radwanski: Yes. This is not huge in terms of the desirability of countering as much as one could the damage. You are raising the question of whether there is any benefit overall in exchange for the forgone revenues from the Canadian purse one way or another from this kind of tax break. Certainly, the finding of the Rasminsky report, commissioned by the federal government itself, was that there was not; that we would be shelling out money without really getting into anything particularly efficacious. I think that is a fair point.

Mr. Haggerty: What do you mean by "we would be shelling out money"? Who is "we"?

Mr. Radwanski: Take the hypothesis where what happens is that the banks take some of the financial activity that is now booked in Ontario and taxed--and just under 50 per cent of the international activity of the Canadian banks is booked now--and under the kind of provision that is envisaged here, they decide to shift some of that booking over to Montreal. That would really be a paper transaction in one sense if that is all they did, but the effect would be that activity that is now taxed would not be taxed because it would go into this tax-exempt arrangement. What we would have there in overall Canadian terms is a loss of national revenue with no real benefit to anybody, and then there is the additional danger of activity shifting over.

Mr. Haggerty: But in Canada the banks have to operate with a reserve.

Mr. Radwanski: That is right.

Mr. Haggerty: Many of these international banking people would be working through these international centres, and there is no guarantee that there is a reserve out there. There is always the possibility that many of them do not have anything to back up their business transactions here in Canada. Is there a possibility that there could be a loss of sources of money, capital, in one country or another if something should happen in this area?

Mr. Radwanski: To be entirely honest, you are getting into a more technical area than I really have expertise in, and I would be misleading you if I tried to speculate.

Mr. Haggerty: In other countries, when you talk about international banking centres, they must have a reserve, but I understand there are certain countries today that do not have that reserve. Unless you are going to do business in their country, you must have that reserve there.

Mr. Radwanski: I am not positive, but I believe those international activities that are booked here now are not subject to reserve requirements now in any event.

Mr. Haggerty: That is right.

There could be all of the secrecy that is going on in the Cayman Islands and the Swiss banks, where nobody knows just what is going on and whose money they are playing with. I am concerned as a small person who puts a certain

amount of my income into the bank looking for some interest on it. They are playing with the common people's money.

Mr. Radwanski: As I say, you are getting more--

Mr. Haggerty: I am talking about the banks here in Canada that would in a round about way be getting into this investment offshore.

Mr. Chairman: I wonder if we could clarify some of this. You mentioned \$10 million. Is that what you are saying it would cost the taxpayers in Ontario if we introduced legislation to attempt to equalize the federal legislation?

Mr. Radwanski: That is an guesstimate--

Mr. Chairman: It would have to be.

Mr. Radwanski: --of necessity, but that was the figure we came up with on the assumption that some activity would shift and stuff that is now not tax exempt becomes tax exempt. That is what would happen. That is what we would lose, in theory, if we simply matched what the federal government is doing. That may be high or it may be low.

Mr. Chairman: How would you go about estimating that?

Mr. Radwanski: That was an estimate that was done by the Treasury, not by our study. That was done a few years earlier. I stand to be corrected on this. That was taking the amount of international activity that is now booked in Ontario, which is now subject to taxation, given all the credit provisions and all that, if that became tax exempt, and adding in whatever variables they added in. Roughly, what you would lose is \$10 million a year.

Mr. Chairman: Would this study have been done coincidental with the Quebec legislation in 1985?

Mr. Radwanski: I believe so.

Mr. Chairman: I heard a figure much smaller than that.

Mr. Radwanski: It is up to. That was seen as an upper limit figure.

Mr. Chairman: A maximum.

Mr. Taylor: That is not the federal loss. You are talking about the provincial loss being \$10 million?

Mr. Radwanski: Yes.

Mr. Mackenzie: I just want to understand what you are saying. You are telling us that for Ontario to match the Quebec incentives could cost us up to \$10 million?

Mr. Radwanski: No. It is the federal. If you are talking about the broader range of Quebec incentives, which includes all the tax breaks--

Mr. Mackenzie: That is what I was wondering.

Mr. Radwanski: --for individuals, I do not have a figure on that.

That would be a lot more evidently. I am talking simply about the narrowly defined international banking centre complex, not the financial.

Mr. Mackenzie: That could be up to \$10 million, but that does not cover what we would have to do if we were trying to get into a contest with Quebec over whether Toronto gets the same break Montreal does.

Mr. Radwanski: On those other provisions, that is correct.

Mr. Mackenzie: You have no idea what kind of a figure we are talking about?

Mr. Radwanski: I do not on the other stuff. I, personally, am not sure that some of that other stuff needs to be matched. If you are talking about tax breaks for company personnel, it would be nice if major international enterprises were so concerned about the wellbeing of their personnel that they located where individual tax breaks were available, but I do not think that kind of thing is a huge factor.

Mr. Mackenzie: I am not even sure it is a game that anybody would want to get into, but I am simply trying to get a global figure on it.

Mr. Radwanski: I am not aware of one. If there is one, I do not have it.

Mr. Haggerty: I want to have one more comment just to sum up my feelings on it. In the other areas of the international banking community, it is just going to open the door for them to come here. There is no control over them, because we are dealing with people who can manipulate the Canadian dollar or manipulate any dollar they want in any country. They can make or break it and they can set the interest rates without any domestic say in the matter whatsoever. I am concerned about that. These fellows are out there and they are big operators. They are a self-interest body. That is what they are out there for.

When they are dealing in a one-eighth per cent or one-sixteenth per cent increase or decrease in the Canadian dollar, that is profit in somebody's hands. They can manipulate that, and that is what has been going on throughout the world today. They are shrewd. At some place, somebody has to pull them down to size.

1010

You are smiling; I think you know what I am getting at.

I can just see this opening the door where we are going to lose control of our domestic banking here in Canada. We are going to lose control of our interest rates. With the interest rate at perhaps the lowest it has been in years, I think of young people out there who say, "Now is my chance to buy a home." They go out and establish a market out there. The real estate market is booming now. But they are figuring, "The interest rates now are something I can afford." Two years or five years down the road, it will be up to 22 per cent if we do not have some control on it.

Mr. Taylor: I think we are becoming irrelevant.

Mr. Haggerty: No. We are right on.

Mr. Chairman: Are there any other questions anyone has of Mr. Radwanski?

Thank you for coming. We appreciate your comments. In fact, you have enlightened us in a number of areas we had not looked at, including the cost factor, as possible legislation is being contemplated at the provincial level. This is obviously something we have to look at very carefully.

Mr. Radwanski: I might add my own view on that cost factor, to put it into a certain context. Measured against the kind of risks there are in not even attempting to match, \$10 million is not a high price tag in that sense. When I say \$10 million in this context, I would characterize it as "only \$10 million" rather than, "Good grief, it will cost \$10 million," although it would be preferable not to have to do it at all.

Mr. Mackenzie: That may not be the total cost either if we get into this kind of a contest.

Mr. Radwanski: It depends what we get into, as I said.

Mr. Chairman: You are suggesting it would result in increased total income in the community. You are basically saying it would not be a cost because of the increased total income in the community.

Mr. Radwanski: I do not think it would result in any increased activity. What I am saying is that I do not think we can afford to be perceived as so indifferent to the federal action as not to do at least the little that is in our power, which is to match the financial break. Although I do not think that itself would solve the problem, we cannot risk being seen not to care enough to do that much.

Mr. Chairman: Thank you very much.

The logical next witness is the Minister of Consumer and Commercial Relations (Mr. Kwinter), who I understand is on his way and will be here any second now, followed by Stan Beck.

Perhaps we could take a look at the federal minister making his announcement; it is a very short announcement.

Mr. Haggerty: Do you want to rub it in?

Mr. Chairman: He made some interesting comments about our fair city and province.

The committee viewed an audio-visual presentation at 10:15 a.m.

1020

Mr. Chairman: That was yesterday afternoon in the House of Commons. We hoped to have those notes he tabled delivered to the committee room this morning, but we are still attempting to obtain them.

Mr. Taylor: They should be put on the record to give some balance to some of the bias that was heard.

Mr. Polsinelli: I would like to concur wholeheartedly with Mr. Taylor. It seems Mr. Wilson and Mr. Mulroney are living in a fantasy world

when he indicates in his statement that he is sending out a positive signal to the rest of the world that Toronto is Canada's major financial centre. I just found the whole statement completely incredulous.

Mr. Chairman: We certainly invited Mr. Wilson to tender any evidence of that sort to this committee and he was not able to co-ordinate his schedule to do so. Nor have we heard from any other witness any evidence--

Mr. Taylor: Except that he did speak with the Premier by telephone prior to tabling his statement, because I got it from the Premier in the Legislature yesterday.

Mr. Chairman: He did have that courtesy; there is no doubt about that. What I am saying is, we have not heard any argument to bolster the statement that Toronto's position is going to be enhanced. It is the case that the federal finance committee, Mr. Blenkarn's committee, is meeting this morning and the Canadian Banking Association is making a submission to that committee this morning. That statement was made yesterday afternoon, and he indicated he had heard all the facts.

Mr. Taylor: I am sure he has, but I am sure he will entertain a repetition of those facts, being a good politician.

Mr. Mackenzie: That may change any time Crosbie says he is wrong.

Mr. Taylor: Let us get into the fishing problems on St. Pierre-Miquelon while we are waiting for Mr. Kwinter.

Mr. Chairman: We will get a copy of the Canadian Bankers' Association's brief to the federal committee for this committee. They declined to speak to our committee on the basis--if I am properly interpreting it--that they felt they might look biased in favour of our province. I suppose they prefer to take a national tack. We have not pushed that any farther.

Mr. Kwinter's staff is pacing the halls right now. I presume he will be here momentarily.

Pardon, Mr. Taylor? Did you have some comments about Picton?

Mr. Taylor: My only disappointment is that Picton and Napanee were not involved in the international banking centres proposal.

Mr. Haggerty: You have an island there, haven't you?

Mr. Taylor: That is right. If things carry on as they do, we may have to secede.

We have the advance guard of a minister, indicating his immediate attendance.

Mr. Polsinelli: Michael Wilson may be seeking to run in Vancouver in the next election.

Mr. Taylor: What have you got against Vancouver?

Interjections.

Mr. Chairman: Welcome, minister. If you could take any seat there, I

will briefly fill you in on what the committee has been doing this morning.

Last week, we heard from the Treasurer (Mr. Nixon) and from other witnesses. This morning, we heard from Mr. Radwanski, the author of the service sector report. The evidence we have heard--I think I can speak on behalf of the whole committee--has not been terribly favourable to the proposed federal legislation. While we were waiting for you, we watched a video of Mr. Wilson's statement in the House of Commons yesterday, in which he indicated that the federal government feels Toronto would benefit from this legislation.

With that, I will turn the microphone over to you and perhaps you have some comments you wish to make.

Hon. Mr. Kwinter: First of all, I would really like to apologize to the members of this committee. As you may know, I was appearing before another committee trying to protect the interests of the wine growers and the wine industry of Ontario. We had a very large delegation. As the key minister, I just could not walk out on them. I apologize for that.

Mr. Chairman: That is understandable.

Hon. Mr. Kwinter: Now that I am here, I have read the testimony of the Treasurer and I have seen what has been going on. I do not want to go over that ground again, but the key issue that has to really be addressed, and one that I think has been missed in some cases, is not so much what this policy is going to do for Vancouver or Montreal but what it is not going to do for Toronto and the implications of that.

We are in a situation where this will be the only jurisdiction in the world where international banking as a facility has been regionalized. What this is going to do is pit one section against the other. It is going to be in a situation where we are going to have look--and I can tell you that officials in my ministry, as well as the Treasury, are looking--at the financial implications. We have heard varying figures. The Treasurer felt it would be somewhere from \$2 million to \$4 million. I understand Mr. Radwanski has said the figure is \$10 million. We do not know quite what the figure is, but we are in a situation where, in order to compete, we are going to have to come up with some sort of tax structure.

To my mind, it is totally unacceptable that something like that should be imposed by the federal government. It is one thing to have some outside force create a problem for a country in that we have to react in order to remain competitive, but it is something else to find that we have to do this because of an act of the federal government, which for what appears to be strictly political reasons has set up a competition among regions of the country.

It may be an accident of history or geography, but Toronto has become the financial centre of Canada. At one time, Montreal was; it has shifted. Montreal has been very aggressive in trying to recover and recoup some of that status. The marketplace has dictated whether it will have that status or not.

We had a situation we can relate to not too long ago when just prior to my announcement of opening up the securities industry to foreign entry, the Bank of Nova Scotia decided it would have a wholly owned subsidiary operating in the securities field in Montreal. That was the market force at work. That is the way it should be. We in turn felt we had to protect Toronto's

pre-eminent spot in the world capital markets, and we made the announcement we have made to facilitate that.

I have no problem with the federal government deciding it would be to the advantage of the financial community in Canada to have this international banking centre facility. I have no quarrel with that at all. If they are going to do it, surely they would not then artificially and, for what I perceive to be strictly political motivation, decide, "Yes, we are going to provide that facility to the financial community of Canada, but arbitrarily we are going to say 'only Montreal and Vancouver will be able to utilize that particular tax benefit.'"

I think it is irresponsible and crass political posturing. I think it is going to do a disservice because it is going to send the wrong signal to the people in Canada, never mind to the foreign market. It is going to send a signal that the federal government feels that Ontario has enough, that it is now time for us to sort of spread the wealth.

When you are in the big leagues of world finance, you need to field the strongest team you can. To try to dissipate it and to try to play politics is the height of folly and it is going to come back to haunt us. I think it is going to create a problem. I cannot speak specifically, because we had mixed signals as to exactly what this policy was going to say. We saw the statement last night and my officials are just analysing it to see exactly what the dollar implications are going to be. But even without the dollar implications, I think we have a problem with perception. Even the people who are most likely to benefit are objecting to it.

1030

The banks, which you would think would say it is great and would welcome it, have said it makes no sense to them. In a story, the Toronto Star quoted the man who is now going to be the inspector general of banks as saying he disagrees. He says it is contrary to Ottawa's plan to sidestep Toronto and give tax concessions to Montreal and Vancouver: "The sleaze-bag Bank of the Cayman Islands will eventually be allowed to apply to operate here and will likely go to Vancouver or Montreal to open up operations and not to Toronto, and I worry about that."

Here is a man the federal government has appointed to be the new inspector general of banks and he shows concerns. It is a situation where any person of any stature who has any input into this thing has felt it is an ill-conceived plan that is not going to benefit anybody. What it is going to do is detract from not only Toronto but also other cities in Canada.

We have a situation in Nova Scotia, which is the birth of banking in Canada. If Halifax feels it can do some business and attract some offshore business, why should it not have that opportunity? Why should two cities be designated arbitrarily, to the exclusion not only of Toronto but also of Calgary, Halifax and any other city that can do it? This is something we are going to have to address.

For those of you who attended the Board of Trade of Metropolitan Toronto dinner last Tuesday night, it is the pre-eminent congregation of business leaders in Toronto. I can tell you without speculating, and most of you will know, what their political affiliation is. There were 2,500 of them sitting in the room, and when the chairman alluded to the fact that the federal government was going to be announcing at any time the creation of

international banking centres for both Montreal and Vancouver, a hiss and a roar went through the whole room.

It is a plan that is ill-conceived. I think it shows the ineptness of the government when it comes to dealing with problems such as this, and we have not heard the last of it. That is really all I want to say. I will be happy to answer any questions.

Mr. Polsinelli: I have one question. Not being the greatest financial expert myself, I have heard it said that while we may perceive Toronto to be effectively in the big leagues and to be one of the large financial centres, and while it may very well be so in Canada, in reality, when we look at the large financial centres in the world, Toronto is barely scratching the surface. In fact, in terms of the world markets, Toronto is a small-timer. My understanding is that if there was any possibility of any city in Canada ever becoming part of the larger financial picture and becoming a financial centre, Toronto had an opportunity to become that.

Is it your opinion that the action of the federal government has now skewed any possibility of that happening?

Hon. Mr. Kwinter: Let me clarify and just state that Toronto is at the top of the second tier. When we talk about world capital markets, Toronto will never be a New York no matter what it does. It cannot be, because it is in the same time zone. Because of that, it will never compete with London or Tokyo. But at the second tier, with the secondary markets in the world, Toronto is right at the top.

I was in Turkey three weeks ago, and the Herald Tribune, international edition, which is the European edition that is circulated throughout Europe--when you get it, look at it--has the Toronto stock quotations. Toronto is, without question, a major market at the second tier, and we hope it will continue to be there.

That is one of the big problems: Toronto has that status, and here is its own federal government sending a message out to the world that we are trying to keep Toronto at that level. That is one of the major reasons behind the thrust to open up the market, to make sure it does not suddenly become a backwater but continues to keep its pre-eminence at the second tier.

Suddenly the message is being sent out by the federal government that we are designating Vancouver and Montreal as international banking centres. That is one of my concerns. What is that going to do to the traders in foreign countries who are saying: "I wonder why Toronto was not included. It was our impression that Toronto was the pre-eminent market in Canada." It is. That is one of the problems: We are sending out a mixed, confusing signal to the international traders.

Mr. Polsinelli: I believe in what you say, but it is in direct contradiction to the announcement by the federal Minister of Finance. I quote from his statement to the House of Commons, "Our proposals have sent a strong signal to the world that we believe in Toronto and have confidence in Toronto as one of the world's major financial centres."

Someone is misrepresenting to the people of Canada some facts in this situation.

Hon. Mr. Kwinter: I suggest to you that that statement is the height

of hypocrisy and the height of hyperbole. It borders on deception. I also submit to you that it was put into that news release as a sop to try to say, "Look, Toronto, we have done this to you, but it is for your own good." To my mind, that is the height of hypocrisy.

If you read that announcement carefully, they are not saying that what they have done with international banking centres is going to be good for Toronto. What they are saying is that within their overall announcement of the banking strategy, where they have agreed to agree with us to open up banking into the securities industry and restructure financial institutions, Toronto will be a net beneficiary, and that is true. But what they have done is to couple that with their announcement to try to obscure what they are doing and to say to people, "What we are doing is in the best interests of Toronto." That is absolute rubbish.

Mr. Polsinelli: I have one final question and then I will leave the floor open to Mr. Taylor. I quote again from Mr. Wilson's statement to the House of Commons: "Unlike some of our critics, who rely on emotional appeals to a narrowly regional point of view without examining the facts, we, as a national government, are addressing this initiative for the good of the country as a whole."

The most striking thing about this is that Mr. Wilson seems to imply that the critics of this proposal are relying on emotional appeals. Is that your opinion? Are there financial experts in Ontario who favour this proposal?

Hon. Mr. Kwinter: If there are, I have not heard of one. I have not heard one responsible financial individual--it does not have to be an expert--come forward and say this is a great initiative that is going to benefit anyone other than the political masters in Ottawa, who think they can make some political points.

I watched Diane Cohen on Canada AM this morning, who just trashed the whole policy. If you listen to anybody who has looked at it objectively, there is no rationale. They would have been better off leaving it alone.

It is not a matter of Ontario as a province or Toronto as a city saying, "We do not want Vancouver or Montreal to have the opportunity of doing this." We are saying to let the marketplace dictate. Surely the role of the federal government is to say, "If we are going to do something, we think we should do it for the benefit of Canada."

1040

We are not trying to say that we want to protect Toronto's or Ontario's preserve. We are saying that if you are going to do it, if you think there is some merit, then surely let the marketplace dictate where it wants to do it and declare all of Canada an international banking centre.

When Premier Vander Zalm came to Toronto and said, "We are not interested in securing any business away from Toronto; what we are aiming at is Seattle and San Francisco; we want to deal with the Pacific Rim," I say that is great. Let them do it. If they can get that kind of business, let them do it and let them thrive. If Quebec thinks it can do business, whether it is in Europe or anywhere else, let it do so.

But surely the policy should have been to say: "We think there are some benefits that can accrue to the financial industry in Canada by having an

international banking centre. We are going to make the provisions for it. We are going to provide the tax amendments to allow it to happen, and anyone who wants to do it can do it."

That way Toronto, as I said, will do it; Halifax, Calgary, Regina, Edmonton--any city, any institution that thinks it can set up and that it is to its advantage to set up in that location--should do it. But to say artificially it can be only in Montreal and Vancouver can only be political expedience, because they feel there is going to be some political benefit by doing it.

Mr. Polsinelli: Thank you. It seems to me, just as a closing comment, that Michael Wilson, particularly as a Toronto member, should be ashamed of himself.

Mr. Chairman: Mr. Taylor, as a Picton member.

Mr. Taylor: I think both the minister and Mr. Polsinelli have used some pretty extravagant language in reference to Mr. Wilson's character.

I am quoting Mr. Wilson on page 2 of the release: "Mr. Speaker, Toronto is Canada's largest and most important financial centre and our actions will not take anything away from that city."

As I have perused the release and listened to Mr. Wilson on the video this morning, what I understood him to say was that business that is now being conducted offshore--and he mentioned the Channel Islands and Panama--may now be attracted to Canada, and with this proposed legislation, the targets would be Montreal and Vancouver. So in reference to that statement, what he is saying is that it is not taking anything away from Toronto but that new business will be attracted to those other two centres, presumably if they do not do business in other centres where they have those tax advantages now.

As you know, we are not talking about the general strength of the bank and most of the banking activities. We are talking about where foreign bookings may be made in terms of foreign transactions. We are talking about nonresidents' deposits in Canadian banking institutions. We are not talking in general about the strength of the Toronto financial community, as I see it.

My question to you is whether you have any knowledge of the types of transactions that are not now being conducted in Canada because we do not have this advantage that other offshore countries have in terms of taxation that might now come to Canada. Of course, the focus would be on Montreal and Vancouver, not on Toronto, because of the proposed legislation. Do you have any information on the magnitude of that?

Hon. Mr. Kwinter: No, but let me tell you that I think you have a misconception of what this means. When you have an international banking centre in the Cayman Islands or wherever it is, there is no reason for anybody who is doing it in the Cayman Islands to move it to Montreal; there is no reason for that to happen at all. So it is not as if--

Mr. Taylor: No; I appreciate that.

Hon. Mr. Kwinter: Let me just finish. What I am saying is that there is no reason for a company that is doing business in the Cayman Islands to

move it to Montreal if it is the same tax advantage; there is no reason for that at all. Why go to the whole trouble of moving it?

Mr. Taylor: I do not know. You would have to ask the banks.

Hon. Mr. Kwinter: I am saying that the only reason this would happen is that it would be more convenient for the bank that was initiating the transaction, if it is a Canadian bank, to have their people in Canada rather than in the Cayman Islands. So what they would do is to say, "Instead of our having to have a whole separate operation in the Cayman Islands, with all that entails to do that business, we can now do it in Canada."

The banking financial centre is in Toronto, so if they felt there were benefits that would accrue, they would take these people and move them to Montreal, Vancouver or wherever they felt was better, and that would impact on us. How much it would impact, I do not know. It could be minimal. There is speculation that we are talking dozens of people, hundreds of people; we are certainly not talking thousands of people. It is not going to be a big deal from that point of view. But what it will do is just shift that emphasis so that they have to set up that kind of organization if they feel it is to their advantage.

It is not a situation where suddenly people are going to come rushing into Canada because there is an international banking centre. There are international banking centres all over the world, and they exist now. The initiative for any kind of change will come from within Canada for the business they are booking out in these offshore tax havens.

Mr. Taylor: I appreciate all that, but my question to you was whether you had any measure of the magnitude of business that is being conducted offshore now that might be decoyed to Canada--

Hon. Mr. Kwinter: No; I have no idea.

Mr. Taylor: --because of the reference in Mr. Wilson's news release that this would happen. At least, that is the perception I get from that release.

Hon. Mr. Kwinter: No; I have no idea what that figure would be.

Mr. Taylor: I think what you have said already is that there seems to be a lot of hype over this. It may be media hype--and, of course, some of it is--and political hype as well, I suppose.

Mr. Wilson also says in the release, "If there is one region or city which will benefit from this government's action, it is the province of Ontario, and particularly, Toronto."

I wonder if you could clarify it for me, because I think this might have been the basis of your accusation of hypocrisy about what he is talking about. I think you did make reference to Toronto as a beneficiary in a larger context of federal action in terms of financial institutions, unrelated to the designation of Vancouver and Montreal as international banking centres. Could you comment on that?

Hon. Mr. Kwinter: Sure. What I am saying is that, when you read his release and you see his statement, if you just listen to it casually without thinking about what he has said, you get the impression that this initiative

has been done to benefit Toronto, that Toronto will be the chief beneficiary of this action.

Mr. Taylor: I certainly have not had that impression.

Hon. Mr. Kwinter: You just quoted it.

Mr. Taylor: I quoted that, I have read it, but he is talking about--

Hon. Mr. Kwinter: It says, "If there is one region or city which will benefit from this government's action--"

Mr. Taylor: "From this government's action," that is right.

Hon. Mr. Kwinter: --"it is the province of Ontario, and particularly, Toronto."

Mr. Taylor: That is right; exactly.

Hon. Mr. Kwinter: That is ridiculous.

Mr. Taylor: It is not ridiculous. Do you think Toronto will not benefit from the government's action in terms of what it is doing? I am not talking about the designation of financial centres.

Hon. Mr. Kwinter: What are you talking about?

Mr. Taylor: I am talking about the government's action in general with regard to financial institutions.

Hon. Mr. Kwinter: That is the whole point I am making. What I am saying to you is that when you read this thing, and when the average person reads it, you get the impression that this initiative is going to be to the chief benefit of Toronto. It says in the statement right here--

Mr. Taylor: I know what it says.

Hon. Mr. Kwinter: "If there is one region or city which will benefit from this government's action, it is the province of Ontario, and particularly, Toronto."

Mr. Polsinelli: Is that doubletalk or is that a lie?

Hon. Mr. Kwinter: I am saying it is hypocrisy. How can they say that?

Mr. Mackenzie: Be fair, though. I hold no brief to what the feds are doing. I think it is worth reading the first sentence in that particular paragraph, too--

Hon. Mr. Kwinter: I agree.

Mr. Mackenzie: --which simply says, "We are lifting the shackles on the financial industry with our new regulatory proposals announced before Christmas." As I understand it, that is the feds' proposal for regulation of financial institutions.

Mr. Polsinelli: That is the reason I am saying it is doubletalk.

Mr. Taylor: You are taking it out of context.

Mr. Chairman: One at a time.

Mr. Polsinelli: It is doubletalk.

Mr. Chairman: The minister has the floor.

1050

Hon. Mr. Kwinter: I am saying it is hypocritical; that is the point I was making. I am not in any way saying it does not refer to the announcement they made before Christmas. I said that in my comments. I am saying that by including it in this announcement, they give the impression that Toronto and Ontario are going to be the chief beneficiaries of what they are doing. The casual listener or reader would look at this and say: "I do not know what everybody is getting excited about. They say this is going to be great for Toronto, and Toronto will be the chief beneficiary."

What they are talking about is their announcement about liberalizing the Bank Act to allow foreign investors in and all these great things, which we agree with; we have announced it as well. Where I take exception is that they are trying to obscure what they are doing by putting that statement in this release to give the impression that Toronto and Ontario are going to be the beneficiaries of this policy when in fact they are not.

Mr. Taylor: In total. What they are talking about is in total, if you want to take the broad picture. I am not overly sensitive about news releases, but I can assure you, if you want to read your own government's news releases, you will be criticizing yourself before long.

Interjection.

Mr. Chairman: Mr. Taylor--

Mr. Taylor: I do not want to get into personalities. I am just saying there was some pretty extravagant language used in regard to comments on this particular news release.

Mr. Polsinelli: This is not a news release. This is a statement that was made by Mr. Wilson to his fellow MPs in the House of Commons.

Mr. Taylor: It says "release" on here, or "communiqué" if you would like that word better.

Mr. Chairman: I think the point has been made, Mr. Taylor. I point out, though, that I listened to the TV yesterday. I did not see the actual release until this morning. At nine o'clock this morning, I was misquoting it. I guess I was one of those casual observers.

Mr. Taylor: As a trained lawyer, you should be more careful.

Mr. Chairman: Well, all right. Mr. Mackenzie.

Mr. Mackenzie: We have had evidence before this committee that Canadian banks pay little tax on international business now. There are very few restrictions. To some extent, that can be a way of getting around otherwise legitimate national taxes or other regulations. Also, there is no

real plus in terms of labour with international banking. Some people have said before this committee there is no real economic significance.

I think I heard you say--maybe I was wrong--something about pulling the sleaze-bag bank in the Cayman Islands up here. Why the hell would we want to pull it up here to Toronto or to any other city? What is the advantage to us in terms of this international banking situation if it is just a means of escaping taxes, national taxes possibly, and lesser restrictions? I have some difficulty in understanding what the whole fuss is all about.

Hon. Mr. Kwinter: I agree with what you have to say. I said that also in my remarks. We would have been better off if they did not do it at all, if they just left it the way it is. Where we have a problem is that if you are going to do it, why exclude the financial centre of Canada from whatever perceived benefit there is? I agree completely with you, Mr. Mackenzie, that we would have been far better off if they had just said, "Forget about it; we are not going to do it," as was recommended by some eminent experts who said no benefits would accrue.

The indication I have is that someone thought it would be a great political ploy. They shoved it into the throne speech. After it was announced, we in our ministry made representations to our counterparts in Ottawa as to the implication of this. They did not seem to know. It had not been thought out. It was something, as I say, that appeared in the throne speech. I made representations to Mr. Wilson and to Mr. Hawkin. They kept assuring us that they had not crystallized their policy; they were working it out. "Don't worry. We will look after you. It is going to be symbolic. It is not going to mean very much." All these things were told to us, yet they kept moving on to their conclusion.

I agree completely with you. We would be far better off without it than what has been done now. However, if you are going to do it--and that is my only point--do not Balkanize the country by arbitrarily saying, "Montreal, yes, you have the mantle and the blessing; Vancouver, yes, but Toronto, no, and any other city in Canada, no." That is my complaint.

I have no problem with the policy, yes or no. If you are not going to do it, I am not saying we should do it. If you are going to do it, I am not saying it is going to be of great benefit. Where I take issue is with them artificially designating just two areas in the country, the only jurisdiction in the world that has ever done that.

Mr. Mackenzie: What I am still not sure of in mind--I have no difficulty agreeing it was a political move; I think all of us know that--is why do we still want essentially to get into a bidding war with the feds or Quebec, because Montreal will be the centre. I really do not think Vancouver is going to have that much effect on us. Why do we want to get into some kind of bidding war that could cost us a hell of a lot just to get that sleaze-bag banking operation here? It is the perception that the foreign community may have, and I can understand that, but nobody has told me what the real benefits are going to be for us to get into some kind of bidding war and allow these people to come in and escape even more taxes. It does not make a hell of a lot of sense.

Hon. Mr. Kwinter: In international banking and financial circles there is an expression of playing on a level playing field.

Mr. Mackenzie: We have heard that; it has been used as an excuse for free trade talks.

Hon. Mr. Kwinter: Fine. But I am saying--

Mr. Mackenzie: When it comes to hyperbole, your party is not far behind on that issue.

Hon. Mr. Kwinter: I am saying that is not something our party invented. It is a phrase that is used in international circles, because people like to know that when they come into a jurisdiction, everybody is treated equally: "We do not care what you do; just apply it evenly."

Mr. Taylor: You do not do that in Ontario.

Hon. Mr. Kwinter: We do not do what?

Mr. Taylor: Treat people equally in terms of your regional programs, for example--all kinds of programs. Let us be fair. There is regionalism within Ontario as there is regionalism within Canada. There are different programs to accommodate the different regions of Canada to ensure a more equal opportunity for Canadians throughout the country.

Hon. Mr. Kwinter: You are mixing apples and oranges.

Mr. Taylor: I am not mixing apples and oranges.

Hon. Mr. Kwinter: Sure you are.

Mr. Taylor: I am talking about the philosophy you have attacked. Anyway, I am sorry to interrupt you.

Mr. Chairman: Mr. Mackenzie, I think the record should show that the adjective being applied to certain banks in the Cayman Islands is a quote from someone not in this room.

Mr. Mackenzie: It was one that was repeated, though, by the minister unless I heard him wrong.

Mr. Chairman: He was just quoting.

Hon. Mr. Kwinter: I was quoting from the Toronto Star. It is a comment from Canada's new inspector general of banks. It is his comment, not mine.

Mr. Mackenzie: That is the same kind of reference you are accusing them of making in terms of leading into tying in why they think there are advantages in the legislation to Toronto, which I think is probably not too accurate, so they have tied it into this international banking centre. By repeating that, you are doing the same kind of thing Wilson is doing in his statement.

Hon. Mr. Kwinter: I do not agree.

Mr. Taylor: Naturally, you would not.

Hon. Mr. Kwinter: No. I am saying to you that here is a statement he made in the House, and in it he says--and I quote again so there will be no misunderstanding--

Mr. Mackenzie: You did not stress that first sentence, which does put a little different perspective on it.

Hon. Mr. Kwinter: No. Let me tell you something. Unless you have had any kind of information and have been following it, that first sentence will mean nothing to you.

Mr. Mackenzie: I may not understand it well, but that is what this committee is doing or trying to do.

Hon. Mr. Kwinter: All right. It says here, "We are lifting the shackles on the financial industry with our new regulatory proposals announced before Christmas."

Let me tell you this. A year ago, almost to the day, they announced in their throne speech that they were going to be introducing international banking centres. Unless you have been following the scene, and unless you are really clued in to what is going on in the regulation of financial institutions, I can tell you that--I was going to say nine out of 10 people--10 out of 10 people have no idea what is going on in the regulation of financial institutions at the federal level. Nobody knows about it, and most of the members in the House do not know about it.

Mr. Taylor: And probably do not care.

Hon. Mr. Kwinter: That is fine. That is the point I am making.

What is happening is this. The statement the minister made in the House, to Parliament, says:

"We are lifting the shackles on the financial industry with our new regulatory proposals announced before Christmas. If there is one region or city which will benefit from this government's action, it is the province of Ontario, and particularly, Toronto."

I do not care whether you leave that first sentence in or not, a person reading that can only determine that this new initiative that was announced yesterday has got to be to the chief benefit of Toronto and Ontario. I say to you, that is hypocrisy and makes no sense.

Mr. Chairman: Any other questions? This has been a most spirited event and we appreciate your coming and being with us today. It has added to our appreciation of the situation.

Hon. Mr. Kwinter: Thank you.

Mr. Chairman: Stan Beck, the chairman of the Ontario Securities Commission, is due shortly. I do not know whether he can top this or not.

Mr. Ramsay: It is up to Taylor.

Mr. Chairman: It is up to Taylor, yes. We have not seen him yet. Apparently he called this morning and is on his way. Perhaps we can take a short break until he arrives.

The committee recessed at 11 a.m.

1111

Mr. Chairman: Perhaps we can get started again; I see a quorum.

Mr. Beck, as always, we are very pleased to have you back again. I hope you can assist us in shedding some light on this issue and what we should do about it, if anything.

ONTARIO SECURITIES COMMISSION

Mr. Beck: I do not have anything prepared, although securities regulation these days is about the fastest-growing business in town. We have opened it, in conjunction with the federal government, to banks. You will appreciate that the international banking centre issue as such relates peculiarly to the banking business as such.

Having said that, perhaps I can express one or two concerns I have related to the IBCs, the opening the Ontario government has announced with respect to the securities industry and the opening the federal government has announced with respect to financial institutions.

As I discussed when I was here previously before the committee, what we are faced with in terms of securities dealing around the world is internationalization; that is, globalization. Whether one is talking about government issues, issues in the Eurobond market, such as Ontario Hydro, the government itself and the federal government do, those are done domestically, in the United States, in Japan in yen-denominated bonds and in Europe in Eurobonds. Foreign exchange, almost by definition, is an international market. An unbelievable figure of something like \$2 trillion a day circuits around the world in foreign exchange trading.

In terms of domestic companies, any treasurer these days must look around the world for the best possible terms with respect to financing. Currency risks and interest rate risks are taken care of these days in the futures market, in the hedging instruments; that is, buying futures on interest rates and financial instruments, Treasury bills, and through what are called swaps, where one can change one's position.

Those are complicated financial instruments, but the point is that financing is no longer a domestic concern because, by and large, interest and currency rates shift risks. One is now able to protect against that sort of risk so that one can truly finance around the world.

How does all that relate to this? It relates to why we saw the necessity to open up the securities industry in Ontario, because it had become an international industry. So much of the business was leaking away from Canada. That one was able to finance around the world. The international firms were here in any event dealing in what we call the exempt market, that is with institutional and sophisticated investors where the protections of the Securities Act were not needed, and because that is the fastest-growing area of the market as opposed to what is currently the regulated part of the market.

We found much of it shifting away from Canada. We were concerned about the place of Canada's capital market, which by and large is centred in Toronto, being weakened. Hence the opening and the very broad opening that has been announced, not only to international investment banks, the main American, Japanese and United Kingdom banks, but also to our domestic financial institutions, banks, trust companies and insurance companies. The important point there is that banking, as you know, falls under the British North America Act to the federal government. The federal government announced, some two weeks after the Ontario government made its announcement, that it would allow the banks to enter the securities business in a full way.

When we say banks, we are talking about the schedule B banks as well as the A. The big six Canadian banks are the A banks; the B banks are the foreign banks that were let in some 10 years ago subject to capital limits. I do not know how many B banks there are in Canada. I think it is over 100, but all the world's major banks are represented, either in a more major or minor way, just with representative offices in Canada.

I would guess right off the top of my head, and this can be checked quickly, that well over 90 per cent of those schedule B banks are headquartered in Toronto because when they look to where the capital market is situated, it is in Toronto. There are a few in Vancouver. I think the Bank of America, for instance, because of its west coast San Francisco headquarters, may well be centred in Vancouver. One or two of the other Pacific Rim banks may be centred in Vancouver. By and large, and I am sure well over 90 per cent are located in Toronto.

We have now said to those banks, as the federal government has said, we are not going to discriminate between A and B banks in terms of coming into the securities industry. They will be very major players and the line between investment banking and commercial banking, which we have had since the 1930s, the Depression, has been broken down. This is important for the growth of the securities industry because the banks are the fastest-growing players in the securities industry around the world. The deposit-taking function, the bank loan function, has changed markedly as far as the banks are concerned. They are into the securities business and loans are being securitized, whether they are large individual loans, syndications or one is talking about billions of dollars they have on their books in terms of conventional home mortgages, automobile loans or credit card loans. One can securitize those; that is, sell small units to the public, get the liability off the books, get money in and send it back out again. Banks are growing very fast.

In terms of the Canadian government, both provincial and federal finance, the Union Bank of Switzerland is the number one financial institution in terms of Eurobonds last year; that is, ahead of all the investment houses and ahead of the domestic banks, UBS is number one.

How does that all relate to the international banking centre? The announcement that was made by the Ontario government, supported by the federal government, has received a great deal of publicity, a great deal of play in the financial press around the world because the opening of a major market such as Toronto is a very significant fact. The major houses want to be here and want to carry on a business in Canada. Canada has a very large, very sophisticated developed capital market for a country its size. It is the world's fourth-largest equity market and that is out of all proportion to the size of the country. We have been very well served by our capital markets and the players around the world see this as a very significant pond in which to play.

1120

Many of them have been in to see me; all the major Japanese houses, major American houses, many of the major UK houses and the major western European houses, which will come through the banks, because of what is known as the universal banking system in Europe; that is, the securities business has always been carried on through the banks. There has never been the division between investment banking and commercial banking which we have had in North America since the Depression and which they have in Japan by virtue of the rules that the Americans wrote when they rewrote Japanese commercial

legislation after the war, and it is breaking down fast in the United States and in Japan also.

The Japanese and American banks are particularly interested in what we have done because they want to experiment here in terms of being in the investment banking business. They want to use this as a base to carry on some investment banking business in the US by having the opening here and they also want to use it to pressure their own governments to break down the wall between investment banking and commercial banking.

The international press, the international financial community, has been very interested and very encouraged by our new rules and they will be here and will be playing as of June 30, when the new rules come into effect, and fully into effect in the following year, June 30, 1988.

What concerns me is that this is a bit of a confusing signal. You may say, "These are sophisticated players; the world's major financial institutions. They understand what is happening and appreciate where the capital market is centred and what business they can do where." One should not overestimate that. They are very sophisticated. On the other hand, international capital markets are very sensitive to signals that are sent by national governments and by domestic markets.

I am constantly fascinated by those who come to see me in terms of opening in Toronto as to what the signals are. What does this mean? What does that mean? If you are not here and right on the ground, you are very susceptible to getting the wrong sorts of signals. They are very sensitive. They are not only sensitive to the actuality, they are sensitive to the nuance. What does that government want? What kind of signal is it sending? What is going to be desirable in that country?

Money moves very quickly. It moves like lightning and decisions are made on the basis of the kind of signals governments send. What is it they want? What kind of conduct is expected of us? How do we behave in that market? How are we able to grow in a maximum way in that sort of market?

One of the things they are most sensitive to are tax rates. They are sensitive to the bottom line, the kind of profit they can make in a community.

My concern is that the international banking centre thing just muddies the waters. It confuses the picture about where they ought to be centred in a particular country and what kind of business can one best carry on where. It is that sort of thing. Countries get reputations too. You would be amazed at the kinds of signals you pick up and they will say something about Canada or something similar.

I am constantly having to correct people. If you find governments not agreeing, to put it in its most neutral, that also sends a signal. Financial institutions are skittish and they have a enough trouble dealing with a federal system, if they do not come from a federal system, in making some sense out of that. Indeed, we have enough trouble making sense out of it living here.

International financial institutions have their own problems making sense out of a federal system. Who do they listen to and how do they behave? The international banking centre thing could not come at a more unhappy or inappropriate time in terms of the other steps that both the Ontario government and the federal government have taken with respect to opening up

Canada's financial market and ensuring that our capital markets are truly international capital markets.

As one looks around the world at the major international financial markets and the countries that have developed capital markets, again I emphasize Canada's place: you have only one major international centre. You think of New York, London, Tokyo, Frankfurt, Zurich and Paris. When you think of Canada, you think of Toronto. That is where the capital market is and that is where it is going to grow. Regardless of where the firms would be centred--and some might well be centred in Montreal--by and large, they would be centred in Toronto.

For a relatively small country, albeit with a developed capital market, which wants to play and develop in that league, to send out signals that there might be one and three quarters capital markets, or one and seven eighths, or one capital market and a half and a half, is an unfortunate kind of signal to send. It think it could augur an unfortunate kind of development.

One really has to ask: "Who is asking for it? Is it needed in terms of the development of the capital market? What sort of game plan does one see that this is needed for the development of the capital market? What is the future going to hold with respect to those markets?" None of those questions has been answered, that I am aware of, much less asked. I am concerned about the timing. I am concerned about the kinds of signals that are sent out. Those are my concerns of a very general kind.

Mr. Taylor: Mr. Beck, we are hearing a lot of hype over this situation and, frankly, I think this may be blown out of context. That is the moderate side of me speaking. Do you see any surge of new business to Canada, in particular to Vancouver and Montreal, because of the federal initiative in designating these cities as international financial centres?

Mr. Beck: That is very difficult for me to answer; I really just took a look at the bill now. That is very hard to know. They will have to ask their accountants and lawyers, "What does this mean and what sort of profitable business can we do in these centres?" That will drive how much business will go there.

I agree to a certain extent that, in terms of what they have allowed, it does not look large. They have cut back a good deal from what they first indicated they were going to do. If one were to take a quick look at what is going to be allowed and whether that would attract many people, I think I might say it looks fairly small at this stage. That is what I would say now.

On the other hand, I think there is a concern as to creating international banking centres and then wanting to make something out of them. Once you have created the entity and have that grand title, then you are going to want to make it fly. I suppose it is what the future holds for those centres that is the unknown.

Mr. Taylor: I assume Mr. Wilson's news release is a news release; it says "release" on one side and "communiqué" on the other. It states that there is business offshore now that could be decoyed to Canada, and he has mentioned the Channel Islands and Panama. Presumably there are other places, too.

I have read that and I have kept in mind the electronics of banking, if I can put it that way, and also the reason one might want to disturb the present pattern and I am not sure just what is going to happen in real terms.

I am a little more pessimistic than some and not given to becoming too excited about all of this. I see it more in a political context than I do in a banking, financial or economic one.

1130

Do you know of any country that has designated a city, or more than one city as opposed to the country, as an international banking centre?

Mr. Beck: No, I do not; I am not aware of that. New York was designated something--I am not quite sure what. There was some designation of New York, but I do not know that it has made a great deal of difference.

Mr. Bond: I think it requested to be designated.

Mr. Beck: Maybe it requested to be designated. I am not aware of that.

Mr. Taylor: What I hear you saying, really, is that a perception is being given in regard to this whole business. It is putting out a signal that foreign focus should be on Vancouver and Montreal as opposed to the real financial centre of Canada, which is Toronto?

Mr. Beck: That is right, and they may ask themselves: "What does the federal government want to do over time? Would it make more sense for us to be established here because, over time, we will be able to do all the business we want here?" After all, once you are here, you can engage in the securities business from Vancouver or Montreal as well as from Toronto, although you like to be in the centre. But if tax considerations are going to drive these decisions, they may well say to themselves, "Let us establish here because there is going to be a greater tax advantage here over time." What sort of signals is the federal government sending? It is that unknown factor, unknown to you, me and them.

Mr. Taylor: Maybe it is the fear of the unknown that is precipitating the outcry at the moment.

Mr. Beck: To an extent. The word I would use rather than "fear" is "concern," concern about the unknown. That is right.

Mr. McFadden: Following up from what Mr. Taylor said, I find quite interesting this business of designating municipalities as banking centres. Canada would probably be doing something unique. I take it your feeling is that if we are to do anything, Toronto at least should be designated. Or would you be more favourable to just Canada being designated and leave it up to the banks to decide where they choose to have an international banking centre, in the sense of, why not have the loans made and the deposits received with regard to nonresidents in Brandon, Edmonton, Vancouver or Halifax? What is the magic of designating these municipalities, given what other countries have done?

Over the weekend I was talking to a group of western business people concerned about what this was all going to mean. My concern is that clearly it could develop into quite a divisive thing. I am wondering if it would not be to Ontario's advantage, if it is entering this debate, to say, "Why not make Canada the international banking centre?" which would permit other provinces to pick up whatever might be there, rather than to say, "It is Toronto, and we are setting ourselves up against Montreal and/or Vancouver."

I think the logic is that Toronto clearly already is an international banking centre and would probably get the lion's share. I think it might be helpful--I just throw this out for argument--and I am curious, because of your contacts with securities regulators and people across Canada, whether from our point of view it might be better to go for a Canadian designation rather than just trying what you might call "horning in" or whatever and trying to have Toronto designated along with a couple of other cities.

Mr. Beck: If you want to do it at all, then it seems to me the national government must make some sort of decision whether this kind of business with this kind of a tax break makes sense for the national economy. If the answer to that is yes, then it seems to me that you make the kind of decision you have said.

If it makes sense and if there is business to be gotten through this kind of decision, then you let the financial institutions decide where they want to carry it on, particularly the west--particularly Vancouver and their whole connection with the Pacific Rim. It might make some sense there for certain kinds of activities. I have talked to people in Vancouver. One person particularly, who is very closely involved with this and the development of Vancouver, said to me: "We never had financial services in mind at all. What we had in mind was services, the whole service side of things and the development. Financial services are not something we even asked for."

He greatly regretted that the debate had turned into this divisive regional debate over something they regarded as de minimis and did not even want in terms of their development vis-à-vis the Pacific Rim. Now, of course, it has become a political issue, which is the last thing they wanted. I think what you say is right.

Mr. McFadden: I would just like to ask one in one other area. I had some discussions with the banking people. I have not solicited their calls; they phoned me, since they knew our committee was looking at this matter. This is obviously hearsay, because the bankers have declined to come here. They are going to Ottawa to appear at the federal committee, so they declined to appear. They have told me they would prefer the national designation. Based on your discussions with the banks--I know this is hearsay--would you say that is more or less the direction you perceived, that they would prefer to go in and allow the market to decide where this international banking might develop?

Mr. Beck: Yes, I would think so. I have not heard one senior banker say that he wants it or that it makes sense economically or that we need it for the development of our capital market; I have not heard one say that. Maybe there is one somewhere. If they are going to have it at all, then make it national. Let them decide where they want to book the business. Yes, I would agree with you.

Mr. McFadden: Have you been able to determine any job impact? Have you heard anything on this? We have heard, again hearsay, that one of the national chartered banks has suggested that one of its divisions dealing with international banking might be moved from Toronto to Montreal as a consequence of the federal proposal, which could lead to the transfer of some 250 jobs. Have you been able to determine at all, in any of your research, that this is a real threat or whether it is more or less hearsay and conjecture and likely does not have much basis in fact? The federal Minister of Finance suggests this will be incremental and is not likely to have any effect on existing operations.

Mr. Chairman: Can you say what institution?

Mr. McFadden: I do not think I should, because it was not for attribution. It was by an employee who had heard and so on; it was in the area. It was one of those kind of discussions. I was just curious if you had anything more authoritative than that on any change of operation.

Mr. Beck: I have not heard that; I do not know. Again, that would depend on how their tax advisers read the bill and what makes sense to them in terms of the bottom line. I just do not know.

I think it is important to keep in mind something that Statistics Canada studies showed. It was repeated again just recently, and our economist used it in a report we provided to the government as background on the opening of the securities industry and job creation. For every job you create or every job you lose in the financial services sector, you create one other job or lose one other job. There is almost a direct one-to-one correlation. If you are talking about either gaining or losing in the financial sector, there is another job gained or lost that is connected with the financial sector. I think that is important.

Do I know or have I heard of divisions of a bank moving? No, I have not.

1140

Mr. Chairman: Are there any other questions?

Thank you very much, sir. That is very helpful information.

Mr. McFadden: He is our last witness.

Mr. Chairman: You are our last witness, and I guess it is up to us now to decide--

Mr. Beck: I should leave you with some great thought, but I--

Mr. McFadden: I think your views are clear.

Mr. Chairman: Members of the committee, we do not know whether or not we are going to be called in for a vote today. Did you want to give Mr. Bond any directions at this stage to report back? I am in the hands of the committee as to how you want to handle this.

Mr. McFadden: I could make one suggestion--and you can tell from the direction of the question what I would like us at least to mention, if not specifically advocate--and that would be that we not get into a war with either the West or Quebec. I do not think we are adding a lot to the country if we do that, and I think it might well be perceived to be fairly self-serving.

I would be of the view that one of the options we should put forward, if not the only option, depending upon the view of the committee, is to go for a Canadian banking centre and not go for these municipal designations. If we are going to have it, I would prefer us to advocate that, because I have a feeling that certain interests in Montreal and Vancouver might try using that against Ontario. On the basis of even a discussion I had with a couple of broadcasters from Quebec, I think that is the kind of thing that could start developing in the next little while. Perhaps even the people from the West feel the same way, that somehow Toronto is trying to cut into their action.

I do not think that is our objective at all--I hope it is not our objective. I would think that even the thrust of the Toronto board of trade's argument was that there be a Canadian banking centre and allow the various communities across Canada to compete in their own way. I think that might be the best solution for Canada now.

I do not know how the other members of the committee feel; maybe you do not agree. I would like to propose that, anyway.

Mr. Chairman: There seem to be four conceivable options: (1) we endorse the federal initiative; (2) we ask them to add Toronto to it; (3) we ask them to withdraw and not have any international banking designation; and (4) the one that you suggested. Are there any others?

Mr. Taylor: There is, Mr. Chairman.

Mr. Chairman: Picton.

Mr. Taylor: The addition of not only Toronto but also Picton and Napanee. While I might be perceived as saying that in jest, implicit in those remarks was really the concept of a Canadian international banking centre.

The reason I say this is that some of us had the good fortune, or otherwise, of experiencing in a very personal way as legislators the whole repatriation of the Canadian Constitution and the revision and revitalization of that, including the Charter of Rights and Freedoms and the amendments that went forth at that time. One of those concerns was the free flow of goods, services and capital across this nation as a single country. I have consistently subscribed to the particular view that Canada should be perceived as a whole and there should be a minimum of restriction in any way on that free flow of goods, services and capital.

The debate at that time in part centred on issues such as different regions of the country: for example, offshore drilling from Newfoundland--that here we want, as a preference, to use Newfoundlanders as labour--and the desire to give preference to certain regions and to discriminate in that fashion. Again, I feel that, as one country, we should be minimizing in any way possible any barriers within the country, and that has been behind my thinking in terms of Canada as an international banking centre.

Some of my questions might have prompted different conclusions from some of you who might have thought me parochial because of some of my semi-facetious remarks such as Napanee or Picton, but I am subscribing to the fourth recommendation: Canada as an international banking centre. The forces of the marketplace will determine where they should best be located.

In terms of Vancouver, there are some natural advantages. Where those natural advantages exist, of course that is where the emphasis will be. We are not really taking it away; we are giving something there. We are giving in an equal way across the country, yet there are natural economic forces at work that would determine who benefits most. In a country such as Canada, we share in those benefits in equalization payments and federal policies that really distribute the wealth of the country. It is taken care of in that way. I subscribe to the fourth option.

Mr. Mackenzie: I would like to think about it a bit, but I think there is a fundamental weakness in the position that both Mr. McFadden and Mr. Taylor have put forward. It seems to me there is no doubt that the federal

initiative was a political one. It is hard not to look at it that way. In terms of a Canadian centre, there are possibilities that there can be some developments in Vancouver. It seems to me it has an insider track because of its location in the Pacific Rim area.

It also seems to me there is the perception of a country. If this was done for political reasons, which I believe it was, and if you let the marketplace decide and have a Canadian financial centre, there is no doubt in my mind whatsoever that Toronto is the area that will be the focal point. If the decision is federal and you go to the marketplace to develop what is here, we heard the last witness tell us that 90 per cent of the banks' business is located in Toronto now. What you are doing is clearly stating that the winner in this game is going to be Toronto.

I may not have any difficulty with that personally, but I say once again, if the move was a political one, it raises a serious question as to the message that is going to give in terms of Quebec. I suspect that the move was a political one and was part and parcel of trying to turn around some of the fortunes that are dropping so rapidly in Quebec. I do not think you can ignore that reality. I think the proposal of Mr. McFadden and Mr. Taylor would mean that we are not really saying "a Canadian centre"; we are saying, "Toronto is the centre." That is why I think you need to think about it a little bit.

Mr. Taylor: I thought I would have given you some argument if you had taken the other side about what the scope was.

Mr. Chairman: But you have not really taken another side. You are not sure you endorse that proposal.

Mr. Mackenzie: No, I think the federal initiative was stupid to begin with. If we are responsible and recognize why it was done, and I do not think I am wrong but others may disagree, in the national interest we may ourselves have to try to gauge what reaction we are likely to get in Montreal and so on. If I am right, and I think I am, the reaction is going to be that if you let the marketplace decide and you go to a Canadian scene, it is going to be Toronto and nothing else.

Mr. Chairman: That is an interesting comment. Perhaps I may comment from the chair and then I will defer to Mr. Haggerty. Mr. Taylor is arguing very eloquently for tax advantages that would create an international banking centre for all of Canada. Mr. Mackenzie is saying that the ideal thing would have been never to have raised the subject. A free trade negotiator probably would adopt Mr. Mackenzie's view over Mr. Taylor's. Is that correct? In any event, I just throw that out.

1150

Mr. Mackenzie: I am not sure. I could have a good argument with you, Mr. Chairman, but I do not think he would come to that conclusion at all. I would more likely come down on the side that if we have to make a decision on this, we had better name Toronto to the scene as well as Montreal and Vancouver. The whole thing is so ludicrous to me that I have difficulty with it.

Mr. Haggerty: I have some strong reservations about it. I think I used the word "unconscionable" to describe the decision of the federal Minister of Finance in moving into this area. I can see the advantages for Vancouver due to the Pacific Rim and the west coast dealings. They have the

Vancouver Stock Exchange and there are securities firms there. But then the argument is put, "We are looking at it for the jobs it may create for the west coast," or for Montreal or Quebec. To say there is no problem on the east coast--if they are going to give tax concessions, they should designate certain cities in each province as international banking centres.

Getting into this tax concession is not going to resolve the problem because you are dealing with world bankers and they are going to take wherever they can get the best deal. They will use it to their advantage. New York City will still be the international banking centre of North America. You are not going to take that away from them as has been mentioned here. I just resent any more tax concessions being given to corporations.

Mr. Taylor: You will not like Larry Grossman's announcement.

Mr. Haggerty: It is the small guy who is carrying the shot and is putting the revenue into federal and provincial coffers. You can hit them too much. I feel that anybody who is going to do business here in Canada should pay his way.

Mr. Chairman: You are opting then for demanding withdrawal of the legislation or--

Mr. Haggerty: If you are going to designate one community and pit one part of Canada against another, I cannot accept that. Confederation on that basis is that it should be equal across all Canada. If you want Toronto as a designated site or Vancouver or Calgary--why should Calgary be left out of it? They are dealing with a great part of the western United States too. They are looking for dealings in the world market.

Mr. Chairman: Maybe we should have one in each time zone.

Mr. Haggerty: That is about it; sure.

Mr. Chairman: In any event, I see Mr. Bond has taken a full page of notes just from that discussion among the four of you. Do you think you could come up with a draft or something next time?

Mr. Haggerty: It will be a war on tax concessions. That is what it will be, who can get the best.

Mr. Bond: I will come up with a draft and I am sure the members will revise it. At least you will have something in front of you to look at.

Mr. Chairman: Good.

Mr. Haggerty: If you look at the Quebec law now, even the persons employed in the international banking business there, no tax is paid at all.

Mr. Chairman: No question was asked of the minister this morning, but it was asked of Mr. Nixon last week. We may want to address the question whether or not we want provincial legislation.

Mr. Bond: There was also a suggestion earlier today by one speaker that there be an all-party resolution in the House.

Mr. Chairman: Radwanski suggested that. Is there any reaction to an

all-party resolution from our House, the sort of thing we would do for a constitutional amendment?

Mr. Taylor: To what purpose? To endorse the recommendation of this committee?

Mr. Chairman: Depending on what that recommendation is.

Mr. Taylor: I guess the adoption of the report would be tantamount to that.

Clerk of the Committee: Yes.

Mr. Chairman: Mr. McFadden, we have just raised the question whether we should adopt the suggestion of our first witness this morning of an all-party resolution in the House.

Mr. McFadden: The interesting thing is that I gather the the House leaders--there is a discussion on right this minute about the Premier bringing a resolution or a statement or some facsimile thereof to the House this afternoon on this very matter.

Mr. Chairman: For an emergency debate?

Mr. McFadden: That is the question. Is it going to be an emergency debate or a round of speeches or a resolution with a round or two rounds, and so on?

Mr. Taylor: That would get the Premier out of estimates.

Mr. McFadden: Yes.

Mr. Taylor: Are not his estimates on this afternoon?

Mr. McFadden: I guess we carry on with our work here, but the Premier may have forgotten what we are doing. However, I think what we ought to do is to be on notice that it may come up today.

Mr. Chairman: Is there something you want me to report today?

Mr. Haggerty: Definitely, if they are going to--

Mr. McFadden: When we are ready. Maybe we are not ready for that. I do not think we should be jumping all over the place.

Mr. Chairman: I appreciate the notice anyway.

Mr. McFadden: We just found this out now.

Mr. Chairman: Is there any other business? By next Thursday, I will have made my one-day junket to the Brookings Institution and I hope I will be able to give you at least an oral report on what has happened there, and a written one, but perhaps not by next Thursday.

Mr. Taylor: I wish you would not call it a junket.

Mr. Chairman: I wish I had not too--my mission.

The committee adjourned at 11:56 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

INTERNATIONAL BANKING CENTRES

THURSDAY, FEBRUARY 5, 1987



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Ramsay, D. (Timiskaming L)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Also taking part:

Offer, S. (Mississauga North L)

Clerk: Carrozza, F.

Staff:

Bond, D., Research Officer, Legislative Research Service

McLellan, R., Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Financial Institutions:

Kwinter, Hon. M., Minister of Consumer and Commercial Relations and Minister
of Financial Institutions (Wilson Heights L)

Parrish, C., Director, Policy, Planning and Legal Services Section

Reid, D. J. M., Director, Loan and Trust Corporations Branch

Wilbee, J. J., Superintendent of Deposit Institutions

From the Trust Companies Association of Canada Inc.:

Somerville, W. H., Chairman; Chairman and Chief Executive Officer, National
Trust Company

From the Canadian Bar Association--Ontario:

Moore, P., Chairman, Committee on Trusts and Loans; with Tory, Tory,
DesLauriers and Binnington

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 5, 1987

The committee met at 9:13 a.m. in committee room 1.

INTERNATIONAL BANKING CENTRES
(continued)

Mr. Chairman: This morning we have a great deal to do. The agenda was set in part as a result of a subcommittee meeting that occurred last week. There was some confusion between Mr. Carrozza and myself as to just exactly what we intended when we were talking about Bill 116.

It was my understanding that one of the things we wanted to deal with today--and we want to deal with a lot today--is to write our report on international banking centres. I am prepared to give a verbal report on my trip to Washington. Mr. Kwinter is due to arrive about 10:30 to deal with Bill 116. Basically, what I expect him to be doing is simply going over those aspects of the bill that he feels we need to concentrate on in our hearings.

We have passed this information on to the Trust Companies Association of Canada and the Canadian Bar Association, both of which expressed interest. In the case of the trust companies association, the understanding was perceived that there was a presentation to be made of some length on the issue of how we schedule our hearings and the length of our hearings. That had not been my personal understanding, and I attempted yesterday to disabuse them of that, because I did not think we necessarily had all the time to do that today. Representatives are here and have indicated that they are prepared to do that.

It seems to me personally that the logical sequence would be to have Mr. Kwinter set out what his views are on Bill 116 at the present time. I would not be surprised if we saw some proposed amendments, and then we can make some decisions as to advertising, etc. If the trust companies wish to add something at that time, it would be appropriate.

On top of all that, I have to leave you at 10 o'clock because I will be representing my party at a House leaders' meeting because Ms. Smith is not available today. Mr. Ferraro will be taking over at that time.

I suggest that we move at the moment, unless there is some view to the contrary, into writing our report and try to have that finished by 10:30. Mr. Kwinter will then come in at 10:30, and we will deal with Bill 116 with some participation from the trust companies. Does that make sense?

Mr. Mackenzie: For purposes of notice so there is no misunderstanding, there is a very important bill, as far as we are concerned, in the House this morning, Bill 149, which I will be speaking on as well as my colleague Mr. Martel. Certainly we will all be there for that bill whenever it comes.

Mr. Chairman: That is, of course, a constant problem with this committee. I should inform the committee that I understand we will be assigned either four or five weeks during the break in which we will be allowed to sit. I understand that present thinking--it is all just proposed--is that the first

week will be the week right after the break, and there will be a hiatus until the school break week. That will take us to the last week of March, and then we can sit from there on until the House comes back, which is not what we had in mind but seems to be all that can be worked out.

Mr. McFadden: I am curious in terms of the thinking on that. I spoke to our whip briefly yesterday about it. I am surprised that they would not have put in a couple of weeks fairly closely after the adjournment for the budget hearings and then perhaps a couple of weeks after the March break. Do you know the thinking behind jamming everything in after the March break?

Mr. Chairman: I have raised the same question with my whip and I do not know the thinking, other than that it is the problem of finding the people to man the committees.

Mr. McFadden: Perhaps when your House leaders meet, you can raise it.

Mr. Chairman: I can raise it again at that time, although I have been told it is not going to be on the agenda. Perhaps I could get it on.

Mr. Mackenzie: I strongly suspect that is accurate.

Mr. Chairman: You have in front of you a draft that Mr. Bond has prepared for our consideration. It is normal at this point in time for committees to go in camera to consider the draft of a final report. The theory behind this is that we make up our mind and the public is not aware of it until we table a report in the House. As you know, we have not done this in cases where we have had short reports, which tended on many occasions to be passed unanimously.

0920

This draft is five pages long. There may be some controversy involved. I am open to a motion from the floor if there is anyone who wishes that we go in camera to draft this report.

Mr. Foulds: I move that we sit in open session. I would much prefer it.

Mr. Chairman: All right. I do not know that this takes a motion. I think we are in open session unless the committee moves to go in camera.

Mr. Ferraro: I do not have any problem.

Mr. Chairman: All right. This is settled, then. We are remaining in open session.

Perhaps, Mr. Bond, if you want to lead us through this, just bearing in mind the caveat that is the final conclusion at the bottom of page five; you might want to peak at that before you start through the whereases. It tends to be the view, I think, that Mr. McFadden has given to the committee as to the four possibilities I think I put out: We can do nothing, or accept the federal legislation; we can demand that Toronto be added; we can demand that the legislation be retracted; or we can demand that the whole country become an international banking centre. It is the final option that Mr. Bond has led us through, too, in this particular document.

Mr. Mackenzie: Does that relate to the vote we had in the House?

Mr. Chairman: Mr. Mackenzie, I would not attempt to interpret the meaning, the significance, of that vote.

Mr. Mackenzie: It was still a vote. It still carries, so I think you have some problems.

Mr. Chairman: Are you suggesting that this resolution contradicts it in some way?

Mr. Mackenzie: I am not the procedural expert, so I am not sure.

Mr. Ferraro: I am going to take this to mean independent thinking.

Mr. Foulds: Do we have a copy of the resolution as passed by the House?

Clerk of the Committee: No, I do not have one.

Mr. Chairman: We could get it.

Mr. Mackenzie: I think we should have a copy of it and of the vote in the House before us. I think it may enter into our discussions.

Mr. McFadden: I think the problem pointed out in the House was the difficulty of the House dealing with matters that are being dealt with in a fairly expeditious way by a committee.

Mr. Chairman: From my recollection of your speech, though, Mr. McFadden, I do not think you particularly addressed the issue that is before the House; I do not think you were even aware of the issue that was before the House when you were making your speech, I should say.

Mr. Cordiano: I think the committee's infinite wisdom far supersedes that of the issues that are dealt with during the proceedings in the House, which are dealt with expeditiously and are not well thought over at all times.

Mr. Chairman: This is it. I think--

Mr. Foulds: Nevertheless, the House is paramount over any--

Mr. Chairman: Yes, the House is paramount, but--

Mr. Cordiano: Yes, but that was last week.

Interjection: Not on a report.

Mr. Chairman: Maybe, Mr. Bond, would you have--

Interjection: They simply do not have the time to deal with it the way we do.

Mr. Foulds: There is the standing order that you cannot debate a topic in the Legislature that has already been debated in that session.

Interjection: No question.

Mr. Haggerty: One of the problems with a resolution of that nature, which was introduced into the House last week and debated, is that, in a

sense, it pre-empts the report of this committee. This is one of the things I am concerned about. Every time a committee is established to review pending government legislation or to deal with matters of great concern, the government of the day can move in and pre-empt what the committee is coming forward with--

Mr. Foulds: That is always the trouble with the British parliamentary system, is it not?

Mr. Haggerty: I just think the committee is independent in the sense that we should be able to put our own views forward.

Mr. Foulds: You are living too close to the American border--

Mr. Chairman: This is just the chair's opinion, but the resolution that was introduced by the government would jeopardize our report seriously. However, I am not sure the final resolution that was passed would. We will take a look at it when we get it.

Mr. Bond, if you would lead us through paragraph by paragraph, if we do not hear any reaction, we will adopt the paragraphs as they get read.

Mr. Bond: "The announcement on January 28, 1987, by the federal government concerning proposed legislation designating Montreal and Vancouver as international banking centres (IBCs) is an ill-conceived intervention in Canada's financial marketplace."

Mr. Ferraro: I do not think it is strong enough. It sounds more like what Mr. McFadden would suggest, to be quite honest. With respect to my good friend Mr. McFadden, for my money, as well as "ill-conceived" we should be using some other adjectives that would describe it: "ill-conceived," "unnecessary," "asinine." I can think of others.

Mr. Bond: I could not have put in that sort of thing.

Mr. Cordiano: Un-Canadian.

Mr. Ferraro: "Ridiculous."

Mr. Chairman: Do you want all those words in, or are you going to choose one?

Mr. Cordiano: Throw them all in.

Interjections.

Mr. Foulds: --intervention is very fine.

Mr. Ferraro: Will the real Tory party please stand up? Come on, Jim, you have to be kidding.

Mr. Foulds: You could say, "stupid, wrong-headed and ill-conceived," it you wanted to.

Mr. McFadden: I think, though, this committee surely has to develop some credibility. I agree with Jim on this point.

Mr. Ferraro: Did you say the committee has to develop some credibility?

Mr. McFadden: I suggest to you that overstating itself is not particularly helpful. This states the case on which we will probably all agree. I suggest that is a reasonable and accurate reflection of the situation.

Mr. Chairman: Does anyone wish to propose a stronger adjective to be added, I take it, to the word "ill-conceived"?

Mr. Ferraro: No, that is fine. If the majority of the committee are happy with "ill-conceived," I will succumb to their wishes.

Mr. Bond: "The standing committee on finance and economic affairs is concerned that the exclusion of Toronto from designation as an IBC sends a confusing signal to the international financial community to the effect that the government of Canada favours Montreal over Toronto as the centre of finance in this country."

Mr. Haggerty: Continue.

Mr. Bond: "The fact that Toronto is Canada's leading financial centre is not in question. Of the 62 domestic and foreign banks (schedule A and B respectively) in Canada, 47 have their head offices in Toronto as compared to 11 in Montreal and four in Vancouver. Approximately 75 per cent of all banks operating in Canada are headquartered in Toronto."

Mr. Ferraro: Forgive me for dragging my feet, but at the second paragraph we indicate that the government of Canada favours Montreal over Toronto. I think we would be remiss if we did not mention Vancouver as well. Say "Confusion is further enhanced by inclusion of Vancouver as a designated IBC" perhaps as the next sentence.

Mr. Foulds: I think you are right, but I think it would be better, if you do not want to get into a Quebec-Ontario kind of battle to just, "favours Montreal and Vancouver over Toronto."

Mr. Ferraro: That is fine.

Mr. Foulds: Include it right in that sentence.

Mr. Cordiano: That is more accurate.

Mr. Foulds: The more I look at it, the more I suspect they actually started with Vancouver as a starting point.

Mr. Ferraro: No.

Mr. Foulds: There are two conflicting scenarios on that.

Mr. Chairman: In any event, is that a consensus just to add, "and Vancouver" after Montreal?

Mr. Cordiano: It would not be accurate if you did not.

Mr. McFadden: I worry about that particular paragraph. I have not read through the whole thing. The only danger in changing that second paragraph is that it could be interpreted by other provinces that we feel they

should not get aid and that the federal government is somehow doing something against Toronto and we are very upset, we do not think they should favour Montreal or Vancouver and so on. I have a worry that Quebec and British Columbia would misinterpret and use that kind of thing for their own purpose against Ontario, not on this matter but on other issues. I would be a little careful about getting into a fight against Montreal and Vancouver. I think we should wish them well; it is just that we think everybody should participate if anybody is going to participate. I am a little worried about specifically designating something like that. It worries me.

0930

Mr. Foulds: The other thing we could do is simply put a period after "community" in "sends a confusing signal to the international financial community."

Mr. McFadden: I would prefer that and leave it at that.

Mr. Foulds: I think later on in the report Mr. Bond actually covers the whole issue.

Mr. Cordiano: As to the way the last part of that sentence is written, that the government is suggesting Toronto will no longer continue to be the financial centre, in fact we know that is not really the truth. The effect of this will be to give minimal amounts of business to Vancouver and Montreal. It brings up regional tensions and all that. Therefore, I do not think it is an accurate statement that you are making.

Mr. Ferraro: I may be pre-empting the conclusion and concluding remarks we want to make, but I think it is important that this committee establish at this point exactly what approach it wants to take. Are we taking the approach that every city should be included in the designation or are we taking the approach that Toronto should be included as well as Vancouver and Montreal? What is happening is that every adjustment we are going to make is going to reflect to some degree on that conclusion, as is indicative of Mr. McFadden's words.

Mr. Chairman: That is an excellent question.

Mr. Foulds: I guess we should start at the end and move back.

Mr. Ferraro: Yes, by the sound of it, Jim, because it has a bearing on how we massage every phrase. I would like to know where the hell the committee is going to go and then we can adjust it accordingly.

Mr. McFadden: Let us deal with paragraph 2. I feel we have to have some preamble. If we could agree to put a period after "financial community" on the third line, I think that would be helpful.

Mr. Ferraro: That is fine, David, if the premise of the committee is that we want to have 10 cities in Canada designated IBCs. If the premise and whole intent of the report is that we want Toronto included along with Vancouver and Montreal, then all you have to do is add Vancouver. Do you understand what I am saying?

Mr. McFadden: No, I--

Mr. Chairman: I interject into this discussion the resolution that

is now in front of us which reads, "That the Legislative Assembly of Ontario regrets the action of the government of Canada's giving further tax concessions to the banking community through its so-called 'International Banking Centres' plan and that this Assembly believes that federal tax reform should benefit individual working Canadians and not further profit banks while exacerbating regional tensions in Canada."

I think that tends to say we do not want any international banking centre designation. However, standing order 43, the rule that was referred to by the chairman a minute ago, I think, says "No motion, or amendment, the subject matter of which has been decided upon, can be again proposed during the same session." However, if we decided to go the other route and ask that the whole country be designated an international bank centre or any of the other options, this would be a report of this committee.

It would not be a motion or an amendment and, therefore, it would be correct procedurally for this committee to make a report that might in some respects contradict the resolution that was passed.

Mr. Mackenzie: If I can for just a moment--I had to stop and think for a minute what went on in the House, but it was in effect pre-empting any move of this committee in any event when Mr. Kwinter moved this motion in the House. As you know, that motion was amended by Mr. Rae or re-amended because of the grammatical incorection. That amendment carried 38 to 30, the Liberal members voting against that amendment, but the motion you finally read carried unanimously. If the Liberal members want to put themselves in that kind of--you opposed the amendment, but once it was amended your members voted and the House voted unanimously for the motion you have just read.

I do not know; I guess this committee can bring in another recommendation. I am not sure it can bring in a recommendation that really is directly contrary to that. I sure as hell will not support it.

Mr. Chairman: I am simply indicating the procedural view of the chair.

Mr. Ferraro: While I do not necessarily agree with the conclusion of Mr. Mackenzie, I think he brings some food for thought. Perhaps the thing to be decided is, do we really have to proceed with this at all? In the light of the action of the House, the report on our part is redundant and I move that we dispense with further activity in that regard. Nobody is going to read the damn report anyway.

Mr. Cordiano: The House has dealt with this and voted unanimously and we all voted. I do not think there is any point in dealing with this any further.

Mr. Mackenzie: That is exactly the point.

Mr. Cordiano: Then let us move on; let us not waste time.

Mr. Haggerty: I do not think it can be just dropped in this area. There should be a message from this committee saying that the work put in here was useless in a sense because of the motion put forward by the minister. I think we must get some signal back, because you can have in any of the committees that now are sitting, and it could be changed by any government in

power. It is a waste of time to have these committee meetings if this is what is going to happen.

Mr. Cordiano: It is my understanding that the government can refer to--

Mr. Chairman: Mr. Foulds?

Mr. Foulds: Much as I find myself in an unusual position here, I support Mr. Ferraro 100 per cent. Mr. Ferraro makes both the proper parliamentary argument and the proper one in terms of the use of our time. I regret it. Let me start with the substance. I support the House's motion, even though I was not in the House at the time. However, I regret that the House and Mr. Kwinter, and this is where I side with Mr. Haggerty, took the action it did while we were actually considering the matter.

That is a pre-emptive matter that was obviously the House's prerogative, but it was not a wise thing to do. However, having done it, I think that any report we submit would be redundant. In parliamentary terms, the report has to be moved and seconded. You then run into a big hassle in parliamentary terms over rule 43 about whether a report that was moved and seconded is acceptable in this session.

If this issue continues to dominate the financial community, it may be that in the new session this committee can do something useful. I do not see anything useful we can do at the present time. I agree with Mr. Ferraro and I regret that the work our research people have done and the work this committee has done in four or five useful sessions has been pre-empted by an action of the crown and the Legislature, but that is the way it is.

Mr. Chairman: Do not forget it was Mr. McClellan's amendment that was passed by the Legislature.

Mr. Foulds: It was a motion--

Mr. Cordiano: I do not recall anyone stating their objections.

Mr. Foulds: Do not provoke me, Mr. Chairman. Your job is to rule objectively.

Mr. Chairman: It was probably out of line for me to say that.

Mr. Ferraro: While I appreciate Mr. Fould's comments, in fairness, I think the Minister of Financial Institutions (Mr. Kwinter) and the government had no alternative, in light of the serious nature of the proposal by the federal government, but to bring it to the attention of the whole House.

To suggest that it was an infringement of the committee's rights can probably be countered by the fact that if the minister and the government had not brought it to the attention of the House in the manner in which they did, we would have been criticized as a government for not taking enough action. Notwithstanding the high esteem in which we hold this committee, the real clout is in that House and it was dutiful, right and proper for the minister, Mr. Kwinter, to bring it to the attention of the House as quickly as he did.

0940

Mr. Taylor: It is interesting that the federal government's

initiative was interpreted as a political response or politically motivated. That was debated in the House, as you know. The resolution by the Minister of Financial Institutions was a political response in regard to the federal political response. With respect, I think that was so. I am not criticizing that because this is a political place and I think there is some justification for the introduction of the resolution in terms of timing.

The legislation, as I understand it, was before the House. I thought there was a message that some found it desirable to go forward immediately and not await this committee's report. I have never been an apologist for the Liberals or the New Democratic Party, but I think you have to be fair. Also, I have never known the rule of stare decisis to fetter the labours of a committee of the assembly. This committee, which I would suggest, although political, is probably more balanced than debates in the assembly in terms of its deliberations and recommendations. This committee can probably be more fair and more thoughtful in terms of considering the issue.

I suggest that a recommendation coming from this committee, albeit following a resolution of the House, might be helpful in terms of an all-party committee that has studied the matter and come up with a recommendation. It might be more helpful to the federal government, if there are any observers at that level, in regard to what this committee thinks about it.

This committee has tried to balance the interests of all of Canada. It has focused on the potential for divisiveness in terms of singling out. I see no reason why the committee could not proceed with its recommendations and report. It is not novel. Many select committees in the past have pursued areas of interest, some more current than others, only to have their potential recommendations confiscated by the government and introduced in advance of the release of the report. Ray Haggerty has been around here long enough to know that.

Mr. Haggerty: That is right; that always happens.

Mr. Taylor: Sometimes you feel a little hurt, if not empty in the exercise when you experience that kind of thing. I do not think that is a reason for taking your marbles and going home. We have performed a function. We have deliberated. We have heard witnesses. In fairness to the process, in fairness to the witnesses and in fairness to the committee members, we should come forward with our recommendations. As I understand the recommendations, what we are really looking at is treating the country as a whole and in that respect recommending that Canada should be an international banking centre. I see nothing wrong with that, notwithstanding the debate and resolution in the House.

If anything, I would question the propriety of the amendment. It completely contradicts the resolution. I question whether that was the proper amendment. In my view, there should have been another motion because, on the one hand, the amendment said--I will not go into it.

Mr. Chairman: I raised that in the Speaker's chambers.

Mr. Taylor: We bow to the infinite wisdom of the Speaker, but in any event, I still think that the committee should complete its report in full--there is not all that much to it--for what it is worth.

Mr. Chairman: The federal committee, incidentally, is continuing to discuss this matter even with legislation before the federal House.

Mr. McFadden: When I look at the resolution passed by the House and at what this report is essentially saying, I see no reason why it is conflicting or tends to contradict it. What the resolution in the House does is it states that it regrets the action of the government to grant further tax concessions to the banking community. It then goes on to say it believes that federal tax reforms should benefit individual Canadians and not further profit banks while exacerbating regional tensions in Canada. Essentially, it is a declaration of regret about what the federal government has done.

The way that whole debate was generated was strictly political, as we all know. It came up that day. It was a response the government of Ontario wanted to make to the federal proposal. There was all-party agreement that the point had to be made. It is clear throughout our hearings too that there has been all-party agreement as to the concern Ontario has about what the federal proposal entails. At the same time, this resolution does not contribute much to an understanding of the Ontario position or of the position of the parties and the reasons for why they are opposed to the federal position.

Further to that, this committee has had some hearings on this matter which has had a number of witnesses here. Further to that, Mr. Bond has done research on it and provided a fair bit of material. It seems to me in light of the time and the money that was put into it, I see nothing wrong with this committee at least reporting to the Legislature on its findings. That is not contrary to the resolution that was passed.

Mr. Bond's breakdown here, his research background and so on is all very useful to the subject. It would seem to me that what we would be doing by getting on with this report is contributing to the overall debate and serious discussion of the issue. The resolution that went through the House does that to a limited extent, but if we are going to influence the finance department and/or the federal committee or anybody else along this direction, a four-line resolution is not going to do that.

It would add far more to the debate and indicate far more the seriousness of our objections if we were to have a report with some substance in it. I suggest it does not have to go on for pages and pages, but a brief report such as this will be read by people in the financial community, by members of the federal House, by the government, and I strongly recommend that we at least do this much. I fail to see why the submission of a report setting the background, the kind of evidence we have received, is contrary to the resolution in the House.

All we are doing is giving to the House our view after our report and I do not see why anybody in the House would object to the filing of that report. Surely it contributes to the overall information and understanding of the issue and the better understanding of Ontario's objections. I suggest we get on with it. It is not contrary at all to the intent of that resolution. If anything it is consistent with the intent of the resolution, which was to indicate our concerns with what the federal government is doing.

Mr. Chairman: Any other debate?

Mr. Mackenzie: I would point out that reading the motion that finally passed in the House unanimously will give as much a message to anybody that wants to take a look at the feelings of this committee as any report that

we now write, which is going to look as though we were trying to straddle the issue or back off what we have done in the House.

Mr. Ferraro: I want to conclude by saying, in fairness, yes I voted for the amended resolution because there was no other alternative at that time. I do not support the intent of the resolution as amended by the New Democratic Party. However, having said that, quite frankly I take some--

Mr. Foulds: How can you vote for something and not support it?

Mr. Ferraro: Bad choice of words; good question. I would have preferred the original motion by the minister. If nothing else we had to send a signal to Ottawa. Unfortunately, being in a minority situation we have limited things that we can accomplish. In that regard, it was supported by all members of the House, much to the chagrin of many Tory supporters I am sure. Having said that, I think we are giving more credibility, probably more verbiage, to the importance of this final report than it will actually get. It has been my experience that many of these reports we spend hours on, they blink their eyes in the House and that is essentially it, in many situations.

0950

I would like to think what Mr. Taylor and Mr. McFadden are saying is partially true and in some degree I am sure it is. For no other reason I will support concluding this report because I hate like hell to do things half-assed, for lack of a better word.

Mr. Chairman: Are you withdrawing your motion?

Mr. Ferraro: No, leave it on the record.

Mr. Chairman: The motion has been withdrawn. We go back to paragraph 2. Where do we stand with paragraph 2 now?

Mr. Bond: There was a suggestion that a period be added after the words, "financial community," and the rest of the sentence be deleted.

Mr. Ferraro: Does the committee deem it appropriate to determine what approach we are taking? Are we going to ask that all cities be included, no cities in Canada or just the three cities? That is important in how we determine.

Mr. Bond: I did make one recommendation at the end of the report. Perhaps I should read that first.

Mr. Ferraro: That would be a good idea.

Mr. Bond: "The standing committee on finance and economic affairs recommends that the Treasurer of Ontario and the Minister of Financial Institutions enter immediately into discussions with the federal Minister of Finance to amend the international banking centre legislation so that all Canadian municipalities may benefit equally from an IBC designation."

Mr. Chairman: Is it the wish of the committee to discuss that conclusion before we proceed with the text? We have not, to the chair's knowledge, reached any particular conclusion.

Mr. Bond: Perhaps I could read the paragraph before that too. It explains a bit the logic of that final resolution.

"The federal government has offered no rationale or explanation for choosing some cities for the IBC designation while excluding others. The standing committee on finance and economic affairs is not seeking preferential treatment for the city of Toronto. There are a number of Canadian cities where international banking activities are ongoing, including Halifax, St. John's, Montreal, Toronto, Regina, Edmonton, Calgary and Vancouver, to mention but a few. The standing committee on finance and economic affairs is asking the federal government for equitable treatment for all Canadian cities, so that each city can have equal access to the tax incentives offered through an IBC designation."

Mr. Ferraro: What we are saying is that every city should be designated an IBC centre in Canada.

Mr. Chairman: That is merely a suggestion by Mr. Bond, yes.

Mr. Foulds: Are we going to debate the concluding recommendation first?

Mr. Chairman: That seems to be Mr. Ferraro's suggestion. I do not want to treat it lightly because if the committee is not in accord with that conclusion, there is no point in going through the rest of the report.

Mr. Foulds: Let us proceed along that line. I want to speak strongly against the recommendation. I cannot bring myself to agree with it. The evidence we heard before this committee, to put it in a nutshell, was that the IBC designation was a crock, it did not mean much, the designation in the first place by the federal government appears to have been political rather than substantive.

I think we add credibility to that definition by asking that the whole country in effect become an IBC designation. Whatever tax concessions are granted appear to encourage no more new business in the country or in any of the cities. Although the House may have arrived at a conclusion that did not have all the background information and the rationale that this committee has, in fact, the best position both for the government of Canada and the government of Ontario is no designation at all.

Therefore, I would like to see a recommendation which simply says the Treasurer of Ontario and the Minister of Financial Institutions should enter into discussions to request the federal government to withdraw its legislation. I would strongly put that position. That way we would not be pitting one city against another, nor one region against another. I think we would have the consensus of most of the people in this committee arrived at through the work we have done and studied.

Mr. Haggerty: You are saying let the market force find its--

Mr. Foulds: If that is the way the banking community is going to argue, sure.

Mr. Ferraro: I will try to be brief. While Mr. Foulds shocked me, I perhaps will shock him. I think he is 100 per cent correct. That approach has been put forward by the delegations I heard, and I think it makes a hell of a lot more sense to say that than it does to say we should enlist 15 cities or to say every city in Canada should have the designation. I wholeheartedly endorse the principle of what Mr. Foulds is saying.

Mr. McFadden: As we have already discussed, the House has set out

its view opposing even having international banking centre designation, so that is a given we have today. As things have developed anyway, the importance of this particular designation seems to be marginal. It appears to portend very little financial benefit to any city. We are talking about 28 jobs or something in that order, so it seems to be a very modest economic incentive to any community, unless there is something in here we have missed. It seems to be mainly symbolic.

What I would like to recommend that the committee consider is to cite in its report the view of the House that there be no international banking centres in Canada, that we not designate either any particular municipality or the whole country. Being realistic about it, in order to make any sense of what we are doing, it seems to me practical that as a committee we could then say: "We are opposed to it. If they should decide to go ahead with this thing at all, then let us designate all of Canada."

If we get into a slugging match with Montreal and Vancouver about whether Toronto should be an IBC as well as them, we are really looking for regional problems. That is based on discussions I have had recently with some people in Quebec. If it becomes an argument among Toronto, Montreal and Vancouver, I think we are looking at regional difficulties.

It seems to me what we should say is: "If the federal government wants to go ahead with it, contrary to our recommendation, then let us designate Canada so that we do not add to regional tensions or anything. Let the marketplace decide." It seems to me that is a mature approach. We cite our ongoing objection because of the House resolution, but if the federal government is doing it, then all of Canada. I do not see anything wrong with doing that. It is consistent with what the House has done, and as well, it reflects the reality of the current situation.

Mr. Ferraro: Are you not saying the same thing though? By designating all of Canada, the bottom line is the same as not designating any city of Canada. Is that not the same thing?

Mr. Taylor: As I understand it, that is the backup position. What you are saying is no, but if there has to be, then it should be all.

Mr. McFadden: That is what I am proposing. That is exactly the point I am getting at. The international banking centre concept essentially relates only to a designation for certain loans that will appear on the books of a bank in a certain place. My point is, why can they not be in the books in Edmonton? What is wrong with Edmonton? What is wrong with Winnipeg or any other community in Canada having that designation?

Mr. Ferraro: I am not disagreeing with you.

Mr. McFadden: My point is really this, and maybe it was not clear enough. I feel what we should say is: "The Legislature's opposition is clear on the whole issue. We are just suggesting if the federal government wants to go ahead, then let us make it all of Canada. Let us not allow this to become a divisive issue for this country." I think that is a fair comment for this committee to make.

Mr. Ferraro: The only thing is if we all agree that it is a dumb move, to be very blunt, on the part of the federal government--and I agree with many of your arguments, in fact most of them, David--I think it actually looks dumb for this committee to come out and recommend that Canada be

designated as an international banking centre. There is only one city in the world that has that designation. To come out and say that Canada should be designated as an international banking centre is like saying Canada should be declared a strong and free country. Are we adding credibility to the stupidity of the federal government by coming out with a motion such as that?

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If we are accomplishing the same thing by saying there should be no designation, irrespective of the motion being intended to be a backup position, I have some difficulty with coming out with motherhood statement such as that.

Mr. Chairman: I am going to recognize Mr. Foulds. I should inform the committee that Mr. Bond assures me that he could rationally adopt this report, simply changing the last paragraph and the last sentence in the second last paragraph to say whatever you want. Everything leading up to it is carefully crafted so that it will meet any final conclusion.

Mr. Foulds: Would it be in order, and I do not want to curtail discussion or anything, if I actually made a motion to amend that last paragraph along those lines?

I move that in the last paragraph in line 3, after the words "the federal Minister of Finance" the words "to amend" be struck out and the words "to withdraw" be substituted therefor and in lines 4 and 5, all the words after the word "legislation" be struck.

The paragraph would read: "The standing committee on finance and economic affairs recommends that the Treasurer of Ontario and the Minister of Financial Institutions enter immediately into discussions with the federal Minister of Finance to withdraw the international banking centre legislation."

Mr. Chairman: Would you care to make any amendments to the paragraph preceding that paragraph?

Mr. Foulds: Why do we not do this one first?

Mr. Chairman: All right, just the principle.

Mr. Foulds: We can then rewrite the second last paragraph.

Mr. Chairman: All right, the motion is on the floor.

Mr. Foulds: I think there are good arguments that have been put forward by both sides in this debate, principally by the member for Eglinton (Mr. McFadden) in going the "what if" route and by the member for Wellington South (Mr. Ferraro) on the side of the argument I am going to be speaking to.

It is the duty of this committee to make a statement of principle based on the experience we have had before us, and the experience we have had before us I think from all sides is that it was not a particularly wise move in financial or fiscal terms for the federal government to begin the steps of designating Montreal and Vancouver as international banking centres. The evidence before the committee was that the federal government itself saw its lack of wisdom in making the initial move by watering down its original proposals substantially so it became even more meaningless.

I think we have seen that the federal government's proposals have caused

concern in the country at large and have caused regional conflict to develop. They have also put Ontario in a very difficult and awkward position. I happen to feel this very strongly coming, as I do, from one of the regions in this province that is not part of the so-called "fat cat" central Canada that everybody else in the country likes to hate.

The federal government has put us in that position, and as a province I think we have to defend our interests. We are willing to take our chances as a province with anybody in the country. It may seem strange coming from a socialist to say that we have developed good financial institutions in Toronto and Toronto has de facto become an international banking centre and a well-respected international banking centre.

I think it is appropriate, therefore, for this committee to continue its arguments and to continue its stand that no action on the federal government in this respect is the best action and to state as strongly as we can a position that is better researched frankly than the House resolution, but a position that reinforces our government, our Treasurer and our Minister of Financial Institutions.

It is also important that when we are considering this motion and we are considering this report, what it is we want to achieve and what is our level, if you like, of authority--I find Mr. McFadden's arguments really quite beguiling and full of common sense, as they always are; I really mean that sincerely, David--but I do not think it is our job, as a Legislature or as a parliament, to carry on the work of the federal government and the federal committees.

If, after the representations of our government and our committees in terms of our principles, the federal government is determined to proceed with the legislation, then we cannot be part of that process. We are not one of the committees of the House of Commons. We are not one of the participants in the federal government debate. We are a strong participant in the national debate on this issue and in those questions, but we are not part of the federal processes. I would prefer giving what I consider Ontario to have a stronger hand by making a strong statement of principle and reinforcing that with the report.

Mr. Chairman: Gentlemen, might I bring to your attention that the minister is outside prepared to come in. Is it the wish of the committee to vote on Mr. Foulds's motion, or would you prefer to delay it for a subsequent meeting?

Mr. Haggerty: Let us delay it until we go through the minister's comments this morning.

Mr. Foulds: I will have to give my speech all over again. We will lose the ebb and flow and the parliamentary thrust of the debate.

Mr. McFadden: I thought this audience was here to hear this debate. We might disappoint them.

The Vice-Chairman: Someone told me that word got out that we were offering free coffee. That is why they are here.

Mr. Taylor: Mr. Chairman, are we not close to voting? Can we not just complete this and get on with the next item?

The Vice-Chairman: Any other discussion on Mr. Foulds's motion?

Mr. Foulds moves that the words "to amend" in the third line be struck out and replaced by "to withdraw" and that the words on the fourth line after "Legislature" be struck out so that the motion reads: "The standing committee on finances and economic affair recommends that the Treasurer of Ontario and the Minister of Financial Institutions enter immediately into discussion with the federal Minister of Finance to withdraw the international banking centre legislation."

Mr. McFadden: I do not know if this is the appropriate point, but I was going to move that a further amendment should be added in. Perhaps I could put that on the floor now.

The Vice-Chairman: It is appropriate, sure.

Mr. McFadden: I was going to move to add the words, "and in the event that the federal government should decide not to withdraw the international banking centre legislation, to amend the said legislation so that all Canadian municipalities may benefit equally from an IBC designation."

The Vice-Chairman: Do you accept that as an amendment, or do you want to vote on this separately?

1010

Mr. Foulds: I do not accept it as an amendment. I would like to vote on it quite separately.

Interjections.

The Vice-Chairman: What we are doing here, gentlemen, is voting on Mr. McFadden's amendment first. Mr. Carrozza, would you read it again, please?

Clerk of the Committee: My understanding, sir, is that it would be a separate amendment to follow after "legislation."

Mr. McFadden: Is it an amendment or is it a separate motion? I am not sure we should vote.

Clerk of the Committee: It is an amendment to the motion.

Interjection: So you vote on the amendment first.

Clerk of the Committee: "And in the event that the federal government should decide not to withdraw the international banking centre legislation, to amend the same legislation so that all Canadian municipalities may benefit equally from the IBC designation."

The Vice-Chairman: Could you be brief, Mr. McFadden, if you want us to--

Mr. McFadden: I will be very brief, considering it has already been put. I just feel, as I have already stated, that it would be useful for us to state that as a secondary point. Our primary point, as the Legislature has already indicated, is that we are in fact opposed to the creation of this designation, certainly under current circumstances; but that if the federal government should decide to go ahead, the designation be available to all municipalities. It seems to me that this is a reasonable approach, and I think it is one that would allow the province and the minister to have at

least a couple of arguments available to him so that he will not just be saying, "Forget it--absolutely nothing."

It seems to me that if the federal Parliament wants to go ahead with it, at least it would put him in a position to lobby that no specific city or region should be favoured over another.

Mr. Haggerty: I was just going to say that Mr. McFadden's amendment is similar to what the staff--and I think the views have been expressed by committee members before. It says, "so that all Canadian municipalities may benefit equally from the IBC designation." That was a consensus before we got to this final point here.

Mr. Foulds: I would just like to refer briefly to this. I am against the amendment on two grounds. First, I think that if you in effect water down the recommendation, you are sending a signal to the federal government that it can proceed, and I think tactically that is an error on our part at this time. Second, I am not sure, and all the evidence I have heard was that a designation does not benefit Canadians particularly. We may be giving up some tax revenue from the public purse that it is not necessary for us to give up. I think that is a very bad thing to do in substantive terms.

The Vice-Chairman: Do you want to vote on the motion, or do you want to defer the whole damn thing?

Mr. Taylor: No; let us vote on the amendment now.

The Vice-Chairman: If the motion passes, Jim, in whatever form, or if it is defeated, we are still going to have to debate the contents of the report.

Mr. Taylor: No. The report, I think, is consistent with that recommendation that the--

Mr. McFadden: Mr. Taylor needs the guidance anyway.

Mr. Taylor: Yes, otherwise we are--

The Vice-Chairman: All right.

Mr. Haggerty: Even so, with a resolution, the amendment that the motion was passed in the House on--what day was it?

The Vice-Chairman: Okay. I am going to cut off debate. All those in favour of Mr. McFadden's amendment? Opposed?

Motion agreed to.

The Vice-Chairman: Now I guess we have to vote on the full--

Clerk of the Committee: We have to vote on Mr. Foulds's amendment, then on the motion as amended.

The Vice-Chairman: As amended. Okay. We are voting on Mr. Foulds's motion, as amended. All those in favour? All those opposed?

Motion agreed to.

The Vice-Chairman: Carried unanimously. Mr. Offer does not have a vote.

Clerk of the Committee: Now on the motion, as amended.

The Vice-Chairman: Now on the motion as amended? All right. All those in favour of Mr. Foulds's motion, as amended?

Clerk of the Committee: This is the motion on the report.

The Vice-Chairman: Tell me what I am supposed to do, Franco, will you?

The Vice-Chairman: We are voting on the recommendation as indicated in the report, is that correct?

Clerk of the Committee: As amended.

The Vice-Chairman: As amended?

Clerk of the Committee: Yes.

The Vice-Chairman: All right. Does everybody understand that? All those in favour? All those opposed? You did not vote? Okay.

Motion agreed to.

The Vice-Chairman: It carries three to one.

Now I assume--I do not assume anything. What are the wishes of the committee at this juncture with the report?

Mr. Taylor: That Mr. Bond make the necessary changes to accommodate the recommendation of the committee in the text of it.

The Vice-Chairman: Okay, does everybody understand that? Mr. Taylor indicates that Mr. Bond should make the necessary adjustments in the report, and I suspect the chairman will release the report to the House.

Mr. Foulds: When he is doing that, there is one concern I have with the text itself. In the sixth paragraph on the first page it says, "The IBC designation will mean that banks in Montreal and Vancouver will receive a tax exemption for the income earned on certain international transactions." Is there any way we can indicate what those international transactions are?

Mr. Bond: Yes, in more detail?

Mr. Foulds: Yes, either with a footnote or in the text.

The Vice-Chairman: Okay. No objection to that? Duly noted. Thank you very much. May I suggest that a copy of the amended or adjusted report be given to all committee members, David, before the report is announced? Is that acceptable to the committee? Thank you, gentlemen.

We have the Minister of Consumer and Commercial Relations and Minister of Financial Institutions (Mr. Kwinter) in our presence today. Would you like to have your staff move up a little closer? Welcome to the committee once again. Not to preclude your purpose here, we understand that essentially you

are going to walk us through the proposed legislation of Bill 116. Is that correct?

Hon. Mr. Kwinter: That is correct.

The Vice-Chairman: Would you prefer interjections and questions as you go along, or would you prefer that it be handled at the end?

Hon. Mr. Kwinter: Whatever your wish is. I have no feeling one way or the other.

The Vice-Chairman: Does the committee have any preference in that regard? I do not hear anything, Mr. Kwinter, so be prepared. There may or may not be interjections. Could you introduce the people with you, please?

Hon. Mr. Kwinter: I have everyone here. On my left is Jim Wilbee, the superintendent of deposit institutions, and on my right is Colleen Parrish, manager of the policy, planning and legal services section. I also have Donald Reid, who is the director of the loan and trust corporations branch. After my remarks, they will be making presentations as well and taking you through the actual details of the legislation.

The Vice-Chairman: Very good.

Hon. Mr. Kwinter: Mr. Chairman and members of the standing committee on finance and economic affairs, I am very pleased today to have the opportunity to meet with you regarding Bill 116, the Loan and Trust Corporations Act, 1986. I am very proud to tell you that this is the first major financial act that is also a bilingual act, Loi portant révision de la Loi sur les compagnies de prêt et de fiducie. That is something we have introduced, and it is introduced in both the English and French versions.

I understand that at this time the committee is scheduling its intersession responsibilities and would like to hear from my ministry regarding the priority to be accorded Bill 116 and the process of its consideration.

Many of you here today were members in this Legislature when Ontario experienced the failure of three trust companies. The legislation that governs trust and loan corporations is virtually the same legislation we had then. Indeed, large parts of current legislation date to 1948, and some corporate governance provisions pre-date the First World War.

With Bill 116 we have the opportunity to bring strong regulatory provisions to Ontario while at the same time modernizing corporate governance and enhancing investment flexibility. It seems to me that we should take this opportunity to ensure that Bill 116 becomes law in this province.

The Loan and Trust Corporations Act currently before this committee is the product of extensive consultation. In November 1983 a white paper on the proposals for revision of the loan and trust corporation legislation and administration was released and given wide distribution. Three months of public hearings were held on the white paper before the standing committee on administration of justice. It reported in May 1984, urging the government to proceed with legislation.

1020

I would note that in the committee's deliberations, members of all parties contributed actively to the final recommendations. In particular, I understand that the late Jim Renwick was very active in putting forward suggestions, many of which are now incorporated in Bill 116.

The standing committee was particularly strong in emphasizing provincial responsibility for the business of loan and trust companies in Ontario. I think it is worth quoting from the committee's report:

"The committee agrees that the new statute has to be very clear in strongly asserting provincial jurisdiction with respect to the area of activity of loan and trust corporations...

"It was agreed that in such a case provincial jurisdiction over the matter should be strongly asserted, and that if the federal government wishes to challenge provincial authority, the issue should be decided by the courts."

The ministry supplemented the white paper with seven staff discussion papers on specific issues, which were circulated to the industry and other governments. The seven discussion papers on commercial lending, real estate value, ownership and directors, conflict of interest, graduated regulatory response, public disclosure and regulatory framework were discussed with federal and provincial officials in the summer of 1984. Presentations were also made to a meeting of provincial ministers responsible for financial institutions.

In June 1985 a consultation draft of the Loan and Trust Corporations Act was released to obtain public comments. Advance copies were provided to all governments in Canada several months in advance so that they would have full opportunity to comment and would know of proposed government policy well in advance of public release.

After coming into office, my government continued consultation with the industry and other governments. We had consultations with ministers responsible for financial institutions on three separate occasions. Staff-level contact was very frequent, and Ontario participated actively in five intergovernmental working committees.

In December 1985 this government had the benefit of the advice of the Dupré task force on financial institutions. This task force had been set up by the previous government and was made up of reputable, distinguished and practically minded advisers. They reviewed all the provisions of the consultation draft act and urged that the act be adopted, with some changes. I indicate their conclusion in this regard:

"We have examined the draft consultation act released by the Ministry of Consumer and Commercial Relations in June 1985 and believe that it is desirable legislation combining as it does requirements for more effective regulation, better control on entry and increased responsibilities for those involved with the management of the industry."

Mr. Foulds: Whom are you quoting there?

Hon. Mr. Kwinter: I am quoting Dupré.

Mr. Foulds: Okay. Thanks.

Hon. Mr. Kwinter: "We believe, furthermore, that this approach is supported generally by the industry and the public whose views were expressed to us during the course of our proceedings."

I would note that almost all of the Dupré task force recommendations are adopted in Bill 116.

Following the release of the Dupré task force final report, this government introduced Bill 87, the predecessor to Bill 116. In July Bill 87 was replaced by Bill 116, and in October the bill was introduced in bilingual form. The bill received second reading in November 1986 and is now in the capable hands of this committee.

Throughout this period I have met with representatives of governments across Canada, trust companies and various interest groups and listened carefully to what has been said. We are proposing motions that indicate that we have listened and will act where change is warranted. Given this history of consultation, I think the time has come to deal with this important piece of legislative reform.

Large parts of the bill are welcomed by the industry and have been adopted by other reform-minded reports. For example, many recommendations in the Estey report come from Bill 116. Similarly, it is clear that aspects of the Hockin white paper are influenced by Bill 116, as is the New Brunswick green paper on trust company legislation.

I have been asked if Bill 116 should be delayed further because of the release of the federal paper, New Directions for the Financial Sector, in December 1986. I do not think this would be in the interests of Ontario's depositors, and here are my reasons.

Federal proposals are still just proposals. We do not know when they will become legislation. What we do know is that it will be some time before the Hockin white paper translates into legislation. We cannot delay reform for ever. While federal reform delayed, we had the failures of federal trust companies, two banks and two federal insurance companies.

Large parts of Bill 116 appear entirely compatible with the thrust of the Hockin white paper. Indeed, the white paper is based in part on Bill 116.

It is difficult to know the exact details of the federal proposals, and this is to be expected, as the New Directions paper has 40 pages on the whole financial sector while Bill 116 is 300 pages on loan and trust companies alone. Why delay certain reform for uncertain reform?

After all, if Bill 116 is passed, it can be revised in future if better ideas are identified. I am certainly open to better ideas, and that is why this bill is referred to full committee review. It is also why the act has a mandatory 10-year review requirement, as in the Bank Act.

I would be disappointed if the opportunity to act were missed. I urge you to make a strong contribution to bringing these much-needed reforms to the loan and trust industry in Ontario, reform that has been outstanding since the failure of Atlantic Acceptance.

Ontario has already paid the price of inadequate legislation. We now have a bill that provides a good balance between depositor protection and legitimate business aspirations, and with the consent of the committee,

officials of my ministry are prepared to make further presentations on Bill 116.

You have already met members from the ministry, and just in closing, I would also like to throw out just for brief discussion and for your consideration some ideas as to the time that will be allotted for discussion of this bill. It is an open-ended kind of situation where we really do not know. It is our best estimate that we are looking at something in the neighbourhood of about 50 hours. How that fits in with your particular needs and requirements I do not know, but I think it is something that should be addressed so we can get an idea of what timing we can allot for public response from clause-by-clause and the things you want to do.

The Vice-Chairman: Any questions of the minister at this juncture?

Mr. Foulds: I have a couple of questions. Basically, our job is to try to determine whether we can handle this bill in the interim, and you are telling us that it would take, you think, about 50 hours to allow public presentation.

Hon. Mr. Kwinter: Best estimate.

Mr. Foulds: If the committee therefore considers Bill 116 in the interim, it will not have the opportunity to do the job it was primarily set up for, in my understanding--that is, the budgetary consideration--because presumably the budget is coming down very shortly after the House reconvenes.

Let me ask you two questions. Number one, just as a minister of the crown, would you think this bill takes precedence over budgetary considerations? I know that is almost an impossible question, but we are between a rock and a hard place.

Hon. Mr. Kwinter: I cannot comment on the budget. I can tell you that Bill 116 is a bill whose time not only has come but whose time is nearly past, and we really have to get this kind of legislation in place. All you have to do is look at the history of financial institutions in this country, and unless we can really tighten it up and bring forward these much-needed reforms--and as I said in my statement, some of these reforms have been crying out since before the First World War. It is something we really have to deal with, and we have to deal with it as quickly as we can. We have sort of discussed it to death out there in the community, and the time has really come now for some action. But I cannot structure your priorities; that is something you will--

Mr. Foulds: No, obviously. If this committee, for various reasons, were not able to complete consideration of it and therefore reported to the new session after we prorogued, it would still be the top priority of your Ministry of Financial Institutions.

Hon. Mr. Kwinter: Yes. The reason I am saying that is that pension benefits is, but we are into pensions.

Mr. Foulds: Yes, I understand.

Hon. Mr. Kwinter: We are doing the pension benefits now. I assume--and from the understanding I have had from the House leader, he expects--to have the Pension Benefits Act completed in April, so by that time we would be in that position.

Mr. Foulds: Yes. I am just trying, once again, to think through the job we have before us. If you had to reintroduce it, do you still see this committee having to consider it?

1030

Hon. Mr. Kwinter: One of the things you are going to have to decide--and again this is your decision--is whether you want to have oral presentations or just written presentations. The 50-hour guesstimate--and that is all it is; I have no way of knowing for sure--contemplates oral presentations. If you decide that you are not going to have oral presentations and you are just going to have written presentations, you could cut down that time rather dramatically. That is a decision you have to make.

Mr. McFadden: The timing of this obviously relates to the allocation of days and weeks that we have to meet during the recess. We have been allocated five weeks, one right after the adjournment and then four after the March break is what we were told.

Mr. Foulds: I just have four.

Mr. McFadden: If we have four--the list I saw just keeps shuffling around all the time, but--

Mr. Foulds: Ours has four; yours may have five.

The Vice-Chairman: No committee has received more than four weeks.

Mr. McFadden: Let us take the four-week example here. We have to deal with the budget. I have a feeling that probably we could hammer that into a couple of weeks if we were tough on time. I am just throwing this out as possibility. If we could do that, it would allow us effectively two weeks of hearing time to complete the consideration of this act.

One of the things we have done as a committee is to have considerable hearings over a number of weeks during the fall on corporate concentration of financial institutions. During the course of those hearings, we heard extensively from people in the trust industry, the banking community and consumer groups and so on about trust companies and what is happening in the industry in corporate concentration. It seems to me that a lot of the topics that are covered in the act that are of major public interest we have already dealt with in hearings looking at corporate concentration in the financial sector.

I wonder, minister, if we could avoid having to go back through all the same witnesses and go through the same ground. I think I was here every day we had hearings. We heard from witnesses from everywhere. Having reviewed what is in the act and having gone through all those hearings, it seems to me we have already covered the bulk of it. Unless the industry wants to come back again with all the same players and make submissions to us, it might be a bit helpful and might be one way to speed this whole thing up if we had more limited hearings. Then we can get into the meat of the legislation with the assistance of yourself and the staff of the ministry. The danger we run is reinventing the wheel here. There have been so many hearings and so many people have made so many views. We have had task forces, white papers and green papers and every other type of paper. Surely we do not have to go

through two weeks of people coming here and repeating in a sense what has already been said.

I would like to recommend we reach an understanding--

The Vice-Chairman: I think it is a good point, personally.

Mr. McFadden: --to limit the public hearing end because we have heard an incredible amount already and get down to the meat of the legislation which could certainly cut into very significantly the hours--

The Vice-Chairman: Are you asking the minister's opinion on that, because this is probably the decision of the committee?

Mr. McFadden: I guess that is why we invited members from the industry as well here this morning, to try to get a feel on whether we are facing hundreds of submissions or whether we could really get it down to a couple or three days of very meaty hearings.

The Vice-Chairman: I think you are right. We have had conflict of interest; we have had self-dealing. There have been a number of discussions. As you indicate, we do not want to reinvent the wheel. Minister, do you have any comment on Mr. McFadden's suggestions.

Hon. Mr. Kwinter: I have no problem with that at all. We have just done a little calculation here and we figure that probably you could get it down to about 30 hours if you take that approach. I have no problem with that.

Mr. Taylor: Some of us have been around long enough to take this experience as the lapse of 10 years on the time for revision of the act. We were in the select company on company law more than a decade ago as I recollect.

Mr. Foulds: Fifteen years ago.

Mr. Haggerty: Sixteen.

Mr. Taylor: Sure. Allan Lawrence was the first chairman of that committee.

The Vice-Chairman: You are showing your age.

Mr. Taylor: It was before I was ever elected in 1971. That committee had been going on, but I am thinking in terms of the examination of the trust companies industry, that particular aspect of it. It has been an exercise in perpetual study. I think it is time to do something constructive. I am anxious to ensure that the public has an opportunity to voice their views and concerns. I would like to see that expedited. Maybe we can get some indication today from those here as to how much time would be required so we can schedule our time.

The Vice-Chairman: I think it is a good point. May I suggest that we allow the minister's aides or assistants to complete their presentations and then we can get into discussing what action the committee wants to take. With respect, Mr. Offer, I wonder if you could hold your question until presentations are finished.

Ms. Parrish: I am Colleen Parrish. I would like to give you a brief idea of what we thought we would do today.

The Vice-Chairman: Excuse me, Ms. Parrish. May I point out to the committee, in case they do not already know, that you are director of policy and planning for the Ministry of Financial Institutions.

Ms. Parrish: That is right.

Ms. Parrish: First, I thought I would speak briefly about what I think are the key issues in the bill; for example, the things I think you are most likely to hear about during the course of your deliberations and what you are most likely to hear submissions on. Then my colleague, the superintendent of deposit institutions, Jim Wilbee, will identify for you those people who we think are most likely to make submissions. We then have a brief overhead presentation of the basic outline of the bill that you may wish to defer until you have dealt with some of your organizational issues. However, we have that for you.

The Vice-Chairman: I think that is the wise course to take.

Ms. Parrish: That is a supplement for the other material we have already provided to Mr. Bond, which provides for a basic outline of the content of the bill. It is on legal size material. Lastly, if the committee has the time, we can identify some issues related to the Hockin white paper on new directions for the financial sector, but only if the committee has time and wishes to pursue that issue.

In terms of the key issues in Bill 116, I will start off by saying that the bill is divided into parts, which makes it a little easier to handle in terms of dividing off issues of substance.

Part I is really just a definitional and application section so it is only likely to be dealt with in terms of some substantive issues that may arise. I should say that Parts II through VIII are not particularly controversial, although there are certain issues that arise and I anticipate that they will role of the auditors and requirements for directors.

The registration part, Part IV, will raise what is often called the equals approach, which is the rule that all companies in Ontario must adhere to certain basic rules.

The Vice-Chairman: Excuse me, Ms. Parrish. What are you referring to in Part IV? Are you talking about this summary you have provided us with?

Ms. Parrish: No, I am not.

The Vice-Chairman: Are you talking about the bill itself?

Ms. Parrish: Yes, I am speaking to the bill itself. The summary was provided as background information for the members of the committee. I am trying to walk through the bill itself, which has 15 parts, and indicate to the members of the committee where I think they are likely to encounter issues of substance.

The Vice-Chairman: Because there are representatives from the trust companies industry here, could you dispense at this time with discussion of

Mr. Hockin's paper and just deal with the bill? I am sure we will get that at a later date.

1040

Ms. Parrish: Certainly. As I said, the registration section is the part in which the committee will undoubtedly be asked to consider the equals approach, which is the rule that all companies operating in Ontario must adhere to certain basic rules. However, the equals approach is the pervasive philosophy of the bill and occurs throughout the bill.

Part V deals with shares and shareholders. This may raise the issue of ownership which, of course, is an issue you have dealt with in the context of your deliberation on corporate concentration.

Parts IX and X are central parts and will probably raise issues of interest. Part IX deals with conflict of interest in self-dealing. Again, this committee has spent some considerable time on those issues. Part X deals with investments. Again, that will be of particular interest to the industry.

Of the remaining five parts, part XIII, which is enforcement and civil remedies, may raise some issues. The offences and penalties part will probably raise one main issue; that is, the role of trust companies in performing corporate trust services that are offered to the public.

In terms of the substance of issues as opposed to where they might arise in the bill, I think the main focus of deliberation will likely be investment latitude and control, matters such as consumer and commercial lending, quantum restrictions and treatment of subsidiaries. Secondly, the ban on self-dealing in conflict-of-interest rules, such as the definition of restricted party, what transaction should be prohibited, what exemptions there should be if there is a self-dealing ban and so on; equals approach, the ownership issue, which this committee has dealt with to a large degree, and the issue of regulatory power and discretion.

I suggest that throughout the bill, there will be a recurrent theme which is balancing the prime interest of preserving depositor protection and public confidence in financial institutions with the interests of enhancing investment opportunity and business flexibility. Bill 116 is really a multifaceted bill in the sense that it tries to find the balance in various places. A number of these issues will probably be those kinds of issues as to where the balance really is between one interest and another interest. That is just a brief outline. As I said, Jim Wilbee will indicate to you the names of the groups we think are most likely to want to make submissions to the committee.

The Vice-Chairman: Thank you, Ms. Parrish. I might point out to the committee that this is the bill.

Mr. Foulds: We have seen it before.

Interjection: Some of us actually looked at it.

Ms. Parrish: Of course, it looks longer than it is because it is in two languages.

The Vice-Chairman: We all know that the minister is a man of few words, but that is when he speaks.

Mr. Wilbee: I would like to give you a list of associations that have indicated to us over the months that they would have an interest in making a submission and perhaps appearing before the committee.

Mr. Vice-Chairman: Can you give us your title again, Mr. Wilbee?

Mr. Wilbee: I am the superintendent of deposit institutions.

The first is the Trust Companies Association of Canada Inc., which is represented here today. The Canadian Bar Association--Ontario has expressed interest as has the Institute of Chartered Accountants of Ontario, the Canadian Life and Health Insurance Association Inc., the Canadian Bankers' Association, the Appraisal Institute of Canada and the mutual fund dealers. That is seven in all that we are aware of. There may well be expressions of interest on the part of individual trust companies that may wish to appear, but these are the associations we are aware of that have indicated they would like to come. There are seven all together. If you wish, Mr. Chairman, we now are ready to give an overview presentation which Colleen Parrish will put on for you.

Mr. Taylor: Could we have some instruction from those who might be here from the industry?

The Vice-Chairman: I understand, Mr. Taylor, that the Trust Companies Association has representatives here and they have a 15-minute presentation. Might I ask, is the minister prepared to stay, or is his schedule so that he has to leave?

Hon. Mr. Kwinter: I will stay for their presentation.

The Vice-Chairman: Is it the committee's wish that we have the presentation from the trust companies institute?

Mr. Foulds: Will they be speaking--

The Vice-Chairman: They have 15 minutes. Then if it is the committee's desire, we can bring the minister and his staff back.

Mr. Foulds: We have to make a decision before a quarter to twelve.

The Vice-Chairman: That is right.

The Vice-Chairman: I understand William Somerville is here representing the trust companies institute. I also see Mr. Cornelissen from Royal Trust. As many of you may know, I believe Mr. Somerville is the president of National Trust and Mr. Cornelissen is president of Royal Trust. Welcome back. Mr. Somerville, would you like to introduce the people with you?

TRUST COMPANIES ASSOCIATION OF CANADA INC.

Mr. Somerville: Thank you very much, Mr. Chairman. Seated with me today on my right is Machiel Cornelissen, who is president and chief executive officer of Royal Trust and is also first vice-chairman of the Trust Companies Association of Canada. On his right is Michael Hasley, executive

vice-president of Guaranty Trust and on my left is Bill Inwood, senior vice-president of Royal Trust.

We welcome the opportunity to be with you today and to have this opportunity to comment on Bill 116. We look forward to having further consultation. However, we recognize the shortness of your time frame and we will do everything possible to condense our greater consultations.

The need for modernization of the trust and loan company legislation has grown in importance with the increasingly rapid rate of innovation and change in Canadian and global financial markets.

A number of initiatives have been taken, including Ontario's Bill 87, followed by Bill 116, the New Brunswick draft bill, the Quebec draft bill and the federal government policy paper, New Directions for the Financial Sector, which contains revolutionary proposals for the future shape of the financial services industry.

Our purpose this morning is to outline some major concerns that the trust industry has with Bill 116, particularly in light of the recent federal proposals. Our major concerns lie in four areas: harmonization of all legislation; the equals approach, which was mentioned by the minister; extension of powers; and conflict of interest.

1. Harmonization: Because our industry is subject to multijurisdictional regulation, we are concerned by a lack of harmony between the various proposals and particularly those of the federal government and of Ontario which, between them, charter the majority of trust companies. These contain different and conflicting investment and lending powers for trust companies and proposals for the structure and nature of regulatory supervision. There are broad commercial and consumer-lending powers proposed federally in contrast to the more restrictive stance of Ontario. Further, the so-called equals approach of Ontario would impose Ontario rules and regulations unilaterally on extraprovincial companies including federal companies.

The initiatives taken by Ontario, other provinces and the federal government represent the first major across-the-board attempt to revise and modernize the powers of our industry and its regulatory structure since trust company legislation was first enacted at the turn of the century. It is essential that every effort be made to gain across the country the greatest possible degree of harmony between the various jurisdictions in respect of powers for the industry and rules under which it operates. Federal and provincial co-operation can achieve this aim. Lack of it will lead to fragmentation of the industry which will benefit neither its members nor the public at large.

The proposed legislation was introduced as Bill 87 only a little more than a year ago. In that comparatively short time, we have seen a Senate banking report with major proposals, the Estey commission report, sweeping new changes proposed for ownership of the securities industry and the far-reaching federal proposals. This is why we believe changes are necessary to Bill 116.

1050

Equals Approach: We recognize that Ontario desires to ensure by means of a licensing process that the province's depositors are not exposed to the risk of dealing with unstable institutions. However, we believe that its intended "equals approach" is unfair to federal and extraprovincial companies, harmful

to competition and does a disservice to consumers of financial services in this province.

A large sector of the industry could be forced to adopt more restrictive investment and lending policies when doing business in Ontario than they are permitted to exercise elsewhere, to the detriment of Ontario residents. By the same token, Ontario's own companies doing business outside the province will be up against a serious competitive disadvantage.

In our view, the aims of the equals approach could be achieved more effectively and fairly by exempting trust companies which have achieved a certain level of size, say \$50 million in capital, and are regulated federally or by another jurisdiction with comparable rules. We strongly recommend that Bill 116 be amended accordingly.

Extension of Powers: Under the recent proposals of the federal Minister of State for Finance, trust and loan companies will have significantly increased powers to undertake consumer and commercial lending, with unrestricted commercial lending powers for institutions with a minimum of \$25 million in capital and supervisory approval and no portfolio limits on consumer lending. In order to maintain its competitive position, the trust industry in Ontario must be assured of the same expansion of direct powers to lend and invest.

Bill 116 proposes quantitative and portfolio limits on commercial and consumer lending as well as other investment rules. These provisions respecting powers must be changed and enlarged in the light of the significant new proposals of the federal policy statement.

Conflict of Interest and Related-Party Transactions: There are a number of major issues raised by part IX, conflict of interest, of Bill 116. Part IX is directed at a policy of protecting the public from activities which may threaten the solvency of financial institutions.

We share the Ontario government's concern. We are equally concerned that regulation of trust companies be done on a workable basis. Trust companies operating in Ontario should not be put at a competitive disadvantage because of inflexible rules designed to prevent the abuses of a small number of irresponsible operators.

We believe that the trust industry's concerns can be solved by careful review and amendment in legislative committee. In our view, the key principles with regard to the major issues in part IX are as follows:

Some non-arm's length transactions involving trust companies are dangerous because they threaten solvency. This is harmful "self-dealing" or conflict of interest.

A number of related-party transactions are beneficial to customers of financial institutions. These include service transactions and transactions which involve networking in order to market financial services.

Such beneficial transactions should be reviewed and managed by internal corporate governance procedures.

Any new rules which are enacted for trust companies in Ontario must satisfy the following requirements: safeguard against harmful conflicts of interest to protect depositors; recognize reasonable commercial transactions

and investments which are not dangerous to solvency; cure the technical problems of the definition of "restricted party" in Bill 116; allow for full discretionary investment powers for client trust accounts with suitable authorization; facilitate networking transactions for delivery of financial services and permit exploitation of synergies by financial institutions--this would, of course, involve full disclosure and complete the open choice to customers, and Bill 116 needs clarification in this area; combine supervision plus greater reliance on corporate governance; provide for pre-clearance with the superintendent of deposit institutions and his staff instead of the Lieutenant Governor in Council.

We support the three-tiered approach recommended in the recent federal government policy statement, as well as by the Senate banking committee: (1) a selective ban on harmful transactions; (2) internal controls for reviewable transactions; and (3) pre-clearance with supervisors for certain transactions.

As part of this new regulatory regime, the trust industry would recommend that statutory provision be made for compulsory membership in the Trust Companies Association of Canada in order to provide additional supervision of the conduct of all industry members. There are a number of areas where drafting changes and amendments are necessary to achieve the above requirements, and it is essential that the clause-by-clause review of Bill 116 address these points.

In conclusion, we are confident that with the necessary careful review and amendments, taking into account the serious concerns we have raised, the trust industry would support the legislation.

We also have a list of points of a technical nature which will require attention and can be solved in the clause-by-clause review. We will supply this list to the committee when we make our presentation at that stage. The Canadian Bar Association--Ontario has made a number of recommendations for improving the clarity of drafting, and we endorse those recommendations.

We believe that Bill 116, with the modifications we have called for, will be a substantial improvement over the existing outdated legislation. The rapid and significant changes in the Canadian and international environment in the last year have made it imperative that our industry's concerns be met. This will achieve the goal of bringing the best legislation to the people of Ontario.

I would just like to thank you for permitting us this opportunity. We are ready and willing to help whenever you call on us.

The Vice-Chairman: Thank you, Mr. Somerville, for your brief presentation. Does the committee have any questions of the delegation?

Mr. Taylor: I assume you would be prepared to be here during the clause-by-clause discussions of the bill so that you could focus in on the specific sections and subsections.

Mr. Somerville: Yes.

Mr. Taylor: Mr. Chairman, in that regard, I expect that is probably going to be the most constructive part of our deliberations. Normally, when we get into clause-by-clause, committees do not start entertaining more delegations at that juncture. I am just wondering, in this circumstance, if it might be more productive and less time consuming for the committee to hear the

concerns of the public in relation to specific sections of the bill, as we discuss those sections, rather than get into more broadly based general criticisms that sometimes would be more of a philosophic nature.

The Vice-Chairman: I have been informed by the clerk that the precedent has been that committees receive presentations, then go to clause-by-clause. What you are suggesting is an innovative approach to dealing with the bill.

Mr. Taylor: On occasion, with some of the technical matters, the committee has permitted delegations to make submissions on a particular section of the bill. I find that more helpful. Often, as you know, before the bill comes before us, there is a lot of consultation with interested parties, the industry, different organizations and groups, and that is often manifested in the legislation itself.

There are, however, some points where parties stand firm in their convictions and the bureaucrats will not give in--and the legislation manifests the will of the bureaucrats--and as a last chance, the technical people from the industry are anxious to put these points to an all-party committee, which is always, of course, open, objective, evenhanded and wise, to make a firm determination of them.

That is why I think it would be more beneficial for the committee to provide the times at that stage, rather than to hear a lot of general presentations which may not be too relevant when we come to discussing the bill clause-by-clause.

1100

The Vice-Chairman: I might say to the committee that this is a very interesting proposal. It is something I am sure the committee will want to discuss. At this juncture, however, does the committee have any questions of the delegation?

Mr. Foulds: I have a couple of questions. Would you be prepared to submit to our committee, in writing, the specific recommendations and amendments you would make? Obviously, you have access to legal counsel. You could actually submit this in writing ahead of time so the committee could consider it. If there were any questions, we might be able to contain our public hearings to specific questions on your specific concerns.

In other words, I am asking you whether your organization has the wherewithal to go through Bill 116 clause-by-clause, give us the clause number, give us your objections and give us your recommendations, in writing, ahead of time?

Mr. Somerville: Mr. Inwood is a solicitor with Royal Trust. I was just asking his opinion and he suggested--

The Vice-Chairman: This suggestion would apply, actually, to all presentations and organizations. They have the same opportunity. I think it is a good one, if they are so inclined use it.

Mr. Foulds: All I wanted to get from our witnesses is whether they had this capability. I think it is for us to discuss our allocation of time and how we deal with it.

The Vice-Chairman: Yes.

Mr. Somerville: It would give us a final opportunity to speak to them, brief as it might be, if need be.

The Vice-Chairman: I think what is being suggested, Mr. Foulds, is not necessarily having a synopsis of Bill 116 as interpreted by the trust companies, because I think we would be here until I grew hair again. Obviously, what we want is to hear from such a vital industry their concerns, in whatever shape or form you gentlemen deem advisable.

Mr. Foulds: I do not want to be argumentative, but I have been through this dance several times--

Mr. Somerville: We have been through it for 40 years.

Mr. Foulds: You have been through it for even longer than I have. My parliamentary career is going to end at the next general election--

Mr. Ferraro: All our careers may end at the next general election.

Mr. Foulds: I have decided to do it, though, and there is nothing like death to concentrate the mind. Frankly, I do not want to waste what I have left on things that are unnecessary. I would like us to deal with the matter as expeditiously as possible.

I remember being on the committee in the early 1970s which completely revamped the Education Act, going through it clause-by-clause. People had the opportunity to speak clause-by-clause. It took us a year and a half of clause-by-clause hearings. I do not think that is a very practical way for us to proceed at this time.

I did not want to get into this argument until we got discussing our agenda, Mr. Chairman.

The Vice-Chairman: What is the specific question you have for the delegation? Do you want some idea of how they are going to make the presentation?

Mr. Foulds: I read through their brief. Although I saw a number of concerns, I did not see, "Section so-and-so should be amended this way." That is what I would like them to say to us, because when we get into clause-by-clause consideration, we have to consider the wording we have before us, alternative wording, and what we think is justifiable wording. This is what clause-by-clause consideration of legislation is.

The Vice-Chairman: I would think the trust companies association is certainly going to make any areas of concern known to us. Do you have any comment on Mr. Foulds's specific recommendation, gentlemen?

Mr. Somerville: We are basically in agreement. We are prepared to make our presentation. There are a few major items we mentioned earlier that we want to be sure about. We have taken up many of the items with a regulatory group at Queen's Park now. I am sure they have agreed with many of our recommendations and will be making those amendments on their own.

The Vice-Chairman: Very good. Mr. Haggerty?

Mr. Haggerty: Yes, I want to follow up Mr. Foulds's comments. I have gone through the brief and flagged about ten areas that I thought were of concern to them. Perhaps if they do have any suggestions to amend particular sections of the bill, then we should have them before--

The Vice-Chairman: I think that goes without saying.

Mr. Haggerty: A number of these gentlemen have been before the committee, last fall, I believe. I do not think we should go into the preamble of the bill. We should do it clause-by-clause, and I think the committee should know clearly the intent of their proposed amendments or the changes they think may be most suitable to the trust companies.

The Vice-Chairman: I think that is worth emphasizing.

Mr. McFadden: I do have one question which relates to how unanimous the industry is. I know the bankers are probably not going to agree with what the trust companies association is going to come forward with. So, eliminating some of the obvious people who are likely to show up here with very definite views on everything, do you believe that in terms of substantive amendments, the association will be able to develop a consensus, or do you think we are going to be confronted here, if we adopt, for example, an association amendment, with individuals or companies showing up with their own set of amendments that might conflict with the association's? How close are you at this time to a pretty much unanimous view on the principles you have set out here?

Mr. Somerville: We are here together. I represent an Ontario incorporated company, Mr. Cornelissen and Mr. Hasley represent federally incorporated companies, and we have a consensus here.

Mr. Cornelissen: We clearly speak on behalf of the industry. That is the way our association operates.

Mr. Haggerty: I want to make one point to the committee members. Now that the report is in two languages, are we going to have any interpreters here we can have quick access to if we have somebody come in representing French-speaking groups?

The Vice-Chairman: I think the clerk is going to make sure that if somebody wants to speak in French, there will be interpreters somehow. We could use room 151. That is something we can deal with on a committee basis.

Do we have any more questions of the delegations specifically? If not, gentlemen, thank you very much for attending. I assure you that your industry will receive the utmost attention from the committee when we are in deliberations.

Mr. Somerville: Thank you very much, and just to you, Mr. Foulds, you gave a question to Mr. Kwinter about what was more important, this or the budgetary area.

The Vice-Chairman: I think we know the answer.

Mr. Somerville: The budget is every year. This is once in a lifetime.

Mr. Foulds: But the budget concerns eight to nine million people in Ontario. This bill concerns your industry and its participants.

Mr. Somerville: No, I would like to expand on that a little bit. This bill concerns the people of Ontario and Canada.

Mr. Foulds: So does the budget.

Mr. Somerville: Yes.

Mr. Foulds: And the budget affects them more fundamentally.

Mr. Somerville: If you can devote the time, this is very important legislation.

The Vice-Chairman: We appreciate those words, Mr. Somerville. Mr. Cornelissen, thank you once again for attending. And Mr. Hasley--I do not want to preclude Guaranty Trust--thank you.

Minister, if you would like to come back up and play musical chairs, we may want to ask you more questions. You and your staff, please.

For the committee's benefit, considering the fact that we want to be out of here by 11:45 a.m., I propose to give at the utmost 15 minutes to the minister and his delegation for any and all questions. Minister, perhaps you want to start with a brief comment.

Hon. Mr. Kwinter: What I would like to do, depending on your timing, is to go through a brief overview of the act, but I would also like to comment briefly on the submission made by the trust industry. In Mr. Somerville's remarks, he mentioned harmonization. I should tell you harmonization is something I have a great desire to achieve.

In meetings I have had with my counterparts across the country and with the Secretary of State for Finance, Mr. Hockin, one of the chief agenda items we had was harmonization. The problem we have is that we do not know as yet what the federal position is going to be. All we have is their broad outline of what they would like to do. They are going to be going to their own committee and working their way through and we will have to deal with it. We always have the opportunity of amending our legislation to make it conform, if we think that is desirable.

1110

The issue of equals is something we feel very strongly about. We feel strongly because, notwithstanding the federal government's very strong indication that it feels we should exempt those institutions that are federally chartered, those who have responsibility in Ontario should have control over those jurisdictions, and the standing committee on administration of justice should endorse that policy.

The investment issue that was brought up is something we can respond to when we finally find out what it is. It is just a broad overview of what they would like to do, and when that does happen, we can then respond. If it happens before the bill is finally approved, we can make the change then if we think it is desirable, or at some subsequent time.

In closing, I point out to you that I will be proposing some amendments myself that will address many of the concerns of the trust industry. As we get into clause-by-clause, we will be bringing forward amendments to effect some of those changes.

The Vice-Chairman: Thank you for those comments. I am wondering whether it is perhaps more appropriate when we start deliberations to have the brief overview of the act and, at this juncture, open it up to questions. I think it would be much more advisable, unless you have some strong reservations or concerns, that it be done today, time constraint being what it is.

I also point out to the committee that there are representatives from the Canadian Bar Association here. It is my understanding, however, from the chairman and the clerk, that the communication between the two was not as clear as it should have been, so there has been no promise of time to the Canadian Bar Association at this juncture for a presentation. I am not trying to fault anyone. They will certainly have their opportunity to make a detailed presentation to the committee.

Are you in agreement with dispensing with the overview at this point?

Hon. Mr. Kwinter: Sure, I have no problem with that.

Colleen Parrish would like to address the issue of motions and how to deal with them.

Ms. Parrish: I will be very brief. I indicate that I think it would be of assistance to the committee and it would save the time of the committee if the ministry circulated its motions in advance to the committee members and annotated them. One of the things that might be of particular help to the committee would be, for instance, if we were moving a motion because of a point brought up by, say, the Canadian Bar Association, the Trust Companies Association of Canada or the Canadian Bankers' Association, we could indicate that the motion was from them and that they are having an agreement that this was an appropriate motion.

The Vice-Chairman: Is it a matter of form that when you present the committee with the motions, which is a good idea, it is the responsibility of the committee to dispense those motions with the associations, or do you do it automatically as a ministry?

Ms. Parrish: We often consult, of course, on motions, but these are motions to legislation before the committee, and so the committee has--

The Vice-Chairman: I am wondering about it as a matter of courtesy more than anything else, because obviously they are going to get hold of it one way or another.

Mr. Taylor: Why should they not have them? If it is a consultative process and it is going to shorten the proceedings and solve some arguments, then why not see whether these proposed amendments address especially the concerns?

The Vice-Chairman: I think you are absolutely right and I agree with you. Once they are given to committee they are public knowledge, and I suspect my question was, "Are you going to do the work, or should we?" I think the clerk should probably do it. That way we will make sure the responsibility lies where it should at this point in time.

Mr. Foulds: Then actually you have answered the main part of what my question was going to be. Could you file those proposed motions or amendments with us by next week?

Ms. Parrish: I will do my very best. Unfortunately, our legislative draftsman is absent this week because of the death of his brother, but I will do my very best to circulate all the ones that are complete, and there may be 10 or so that have not been finalized because of this very unfortunate circumstance.

Mr. Foulds: That would be very useful, and if you could indicate the areas or the clauses where those other 10 will be, we will at least have in our own little copy red flagged that there are going to be amendments there.

Ms. Parrish: I can certainly indicate where they will be. Many of them are close to finalization, but of course they have to be done in both French and English.

Mr. Foulds: Sure. Thank you.

Mr. McFadden: Just to get an idea of what we are looking at, we have Bill 116 here, which is of some size. We expect now to receive from you, of course, a number of amendments that are going to be sought that you are in agreement with, certainly. I understand, on the basis of what we have discussed now, that probably the trust companies association will be coming forward, perhaps with others; the Canadian Bar Association could, and any number of other people could show up with motions and amendments that they want to see us consider.

Have you got any view at this time as to what kind of an avalanche of things may start developing? Do you feel there will be a relatively limited number, based on your work or the ministry's work to date, and on talk with industry and other interested parties? Or do you feel that by the time we get into clause-by-clause, there is going to be an avalanche of amendments that we are going to be faced with having to reconcile and ferret our way through? In a preliminary way, what do you think we are going to be confronted with?

Ms. Parrish: I think there will be about 100 motions to the bill in total, and about 80 of them or so will be government motions. That number is deceptive in the sense that it sounds like a lot more than it is, because often to make one policy change you have to make 10 motions. You make the same motion every single time and it comes up five or six times. There are a fair number of motions of that nature.

I would say that, of the motions we are looking at, there are only about 20 that are significant in terms of a policy shift. They are more likely of the whoops variety: This section does not match that section. In some cases they are drafting modernizations of antiquated language brought to our attention by the Canadian Bar Association. They are unlikely to be controversial. Out of those 80 motions that are government motions, a relatively small number constitute things that might take time from the committee's deliberations.

The Vice-Chairman: Might I interject on that note to the minister, as I am sure you are aware and as was pointed out to me by Mr. Carrozza and Mr. Bond, that a procedure that is open to the government--in this case, your ministry--is that you can have the bill in essence reproduced, highlighting proposed amendments right in the bill, and I understand we are going to have

enough time to do that. Or would you prefer to present--and I understand that while 20 of them are substantive motions, if I can use that word, there are over 100 changes. Has that approach been considered by your ministry?

Ms. Parrish: We have discussed that point with the legislative draftsman's office. It sounds surprising, but they say that 100 motions to a bill this size is actually not that many. They are certainly willing, and really it is in the hands of the committee as to what helps the committee do its work. This is what it is for.

The Vice-Chairman: I think that would be a lot easier myself, but what does the committee think?

Mr. Cordiano: I think it helps tremendously, because if you have got the original bill with amendments to be added, you have to flip back and forth and you lose all perspective at that point.

Mr. Taylor: The fewer surprises the better, I think, in terms of everyone. If the industry knows in advance, I think it is going to save everyone's time, rather than to be met with a motion to amend at the clause-by-clause stage.

The Vice-Chairman: The question, Mr. Taylor, though, is not that the industry or the committee would not know in advance, but in exactly what form the motions would be presented. What we are discussing is, should we have them reprint the bill, which I understand is not all that difficult, and highlight the proposed amendments or motions; or would you prefer to have the bill remain as is and have a separate compilation of any and all motions that the ministry is proposing?

Mr. Taylor: I would think it would be better to incorporate the amendments with the usual highlighting in it.

The Vice-Chairman: That is right: highlight everything in it.

1120

Mr. Cordiano: Are the ministry amendments completed now and ready to be tabled?

Ms. Parrish: We have some polishing work to do on some; about one third of them are finalized. As I indicated, we now have to wait until next week to finalize, but we have them identified and drafted in preliminary form. About one third of them are final. We are very close.

Mr. Cordiano: What you are saying is that you could have them ready for reprinting of the bill and there would be no problem about reprinting the bill.

Ms. Parrish: That is correct.

The Vice-Chairman: If there are any subsequent amendments, either from the ministry or from the committee, we can consider them at that point.

Mr. Foulds: I think we should wait and see.

Mr. Offer: With respect to that point and getting the ministry's amendments on a compendium type of format, I would like to indicate that if

there are any amendments by opposition parties, it would also be very useful to have them part of the compendium.

Mr. McFadden: I am trying to get an idea of the amount of time in contention that could come up. You mentioned that there are probably 20 substantive motions with some real meat in them. Of these substantive motions, as you anticipate now, how many would you expect will have conflicting amendments that might come before this committee from various interested parties? Are we likely to find ourselves in a spot, for example, where we have an existing section, one amendment and three other amendments, all conflicting? On the basis of your experience to date and your discussions with industry people and other people who have spoken to you, are we likely to find ourselves with a tremendous amount of contention on all 20, or do you think it would likely boil down to three or four?

Ms. Parrish: It is very difficult for me to answer that question. I could not say at this time. We are still in the process of discussing some issues and our minister is still discussing some issues with the industry. Indeed, in some areas, we do not yet know exactly what it is that might be wanted. That is a very difficult question really to assess.

Mr. McFadden: We will know in due course.

The Vice-Chairman: If there are no other questions, then we understand that you will have a reprinted bill highlighting amendments. You will subsequently give it to the clerk, and the clerk will make sure that interested parties receive copies thereof. Is that acceptable to the minister?

If there are no further questions, thank you very much for attending, minister and staff. We look forward in the weeks ahead to much more interaction.

Hon. Mr. Kwinter: Thank you.

Mr. Taylor: Can you get some indication from the Canadian Bar Association as to whether they intend to draft amendments?

The Vice-Chairman: I am prepared to ask the bar association to make a very brief comment. It is almost impossible to ask a lawyer to keep under five minutes. The chair will entertain that.

I apologize for not giving you appropriate time, but my understanding is that communication was not what it should have been. Would you introduce yourself, please?

CANADIAN BAR ASSOCIATION--ONTARIO

Mr. Moore: My name is Paul Moore. I am a lawyer with Tory, Tory, DesLauriers and Binnington in Toronto. I am the chairman of the Canadian Bar Association--Ontario branch subcommittee that was set up to study loan and trust legislation. The committee was set up about three years ago and we have been meeting ever since. We are doing, in parallel, what you people have been doing and what the industry has been doing.

What we have done, Mr. Chairman, is to prepare--and it is still in draft form--exactly what you have suggested: a clause-by-clause commentary, where we put forward the suggested change--

The Vice-Chairman: You are not sending us a bill for that, are you, Mr. Moore?

Mr. Moore: This is more formidable than it looks. It is really very tightly spaced.

We have given the suggested change in what we thought was legislative language and then a comment under it and the reason for it. We have provided copies of this draft to the ministry officials and have been meeting with them. We are most anxious to see what the proposed amendments are, and our understanding was that we would see them before they were finalized, which is in keeping with what we heard today.

There is one section of the bill we still have not commented on. Needless to say, there are several things here that we want to change in view of some of our discussions. Some matters have been cleared up.

The Vice-Chairman: Were you providing that to the committee at this juncture, Mr. Moore?

Mr. Moore: No, we have certain procedures we have to go through. Our committee has put this together. You have to go through the proper branches of the Canadian Bar Association to make sure it is all properly blessed. This is really not in a shape to go forward. It went to the ministry officials but not to this committee.

The Vice-Chairman: So you will give us whatever you want at presentation time?

Mr. Moore: We will give you a version of this in final form as a submission.

The Vice-Chairman: Very good. Any short questions of Mr. Moore?

Mr. McFadden: Just one short question, Mr. Moore. You were in the audience when the trust companies association made its presentation. On the basis of what you heard of its presentation, do you feel the various amendments in your report harmonized, to some extent, with what they are recommending, or do you feel the bar association's points would be considerably different from or in conflict with what the trust companies association's presentation dealt with this morning?

Mr. Moore: I think there will be one or two areas where there may be disagreement. Basically, the Canadian Bar Association is taking the view of technical language, clearing up some of the inconsistencies and also, from a practitioner's point of view, working with the statute out in public.

There will not be areas of real conflict. The industry will perhaps put forward some policy-based amendments, whereas I do not think ours will be quite as policy based. Although they will be policy based, it will be on legal grounds. For example, there is a lot of under 10 per cent or over 10 per cent; we would like to see that consistent--certain things like that which really are not policy-based at all.

The role of a trustee and the ability of a corporation that is not a trust company to perform as trustee is one area in which I can see some difference with the association. That is the only one that comes to mind. We have been communicating with officials at the association, at least on their

legal staff, and are aware of what their position has been. I have seen their briefs and they have seen ours. I do not think there has been a lot of disagreement.

Mr. McFadden: The thrust of the bar association's material will be to make the act work better?

Mr. Moore: Yes.

Mr. McFadden: And be reasonably understood and enforceable in law?

Mr. Moore: Yes. Our view of that is that it is going to be a formidable job because it is a completely new bill, and we have made some earlier suggestions, which have not been adopted. We probably will not make them again to this committee, because it is too late. We are going to be concentrating our concerns on making the bill work.

The Vice-Chairman: Thank you, Mr. Moore. We look forward to the presentation from the Canadian Bar Association. I suggest to the committee, if at all possible, with a time limit of 11:45, it is my understanding that a lot of the members here would like to go in and vote on private members' bills and catch the tail end of some of the dissertation going on.

The task before us now remains, as I understand it, to indicate the scheduling of any and all deliberations on Bill 116, frequency of meetings, timing specifically, presenters and format.

Mr. Foulds: We have four weeks that we are going to get out of the House leaders before the House reconvenes. Of that time, I suggest we spend three weeks on the budget and one week on Bill 116. We should spend one week, that of April 6, which I think has been tentatively assigned to us for Bill 116.

The Vice-Chairman: Might I interject, Mr. Foulds, that tentatively the weeks are March 16 to 20, March 23 to 27, March 30 to April 3.

Mr. Morin-Strom: No, not the 16th.

Mr. Foulds: It is not March 16th. It is February 16th. March 16th is March break. No committees.

Mr. Cordiano: February 16th.

The Vice-Chairman: There is one before that?

Mr. Foulds: If the House adjourns on the 12th, we have been assigned February 16.

The Vice-Chairman: Thank you. It is the week of February 16, March 16 to 20--

1130

Mr. Foulds: No, not March 16 to 20. No committees are meeting March 16 to 20. That is the March break.

Clerk of the Committee: March break is the 16th.

The Vice-Chairman: What are you doing to me, Mr. Carrozza? I can make a fool of myself without your assistance, thank you. Whatever the hell the weeks are, let us get into the dissertation. Continue, Mr. Foulds.

Mr. Foulds: My understanding is that this month too is only tentative. The House leaders are meeting at this very moment. The weeks assigned to us are February 16, March 23, March 30 and then April 6.

The Vice-Chairman: You are suggesting three and one, in essence. One for Bill 116. Any other comments?

Mr. Foulds: I suggest we notify the interested parties that the last week, April 6, we will be considering Bill 116, and ask them to submit in writing, say, by two weeks ahead of that date, any submissions they have. Our research staff could then go through them. If there were questions on any of the submissions, we could invite the groups to come before us to answer those questions. We would not have to go through the whole brief during the public hearings, the open hearings.

Then, we will get into clause-by-clause. We will not complete clause-by-clause, but at that point I think we refer the bill back to the House.

The Vice-Chairman: Mr. Foulds, this is perhaps a moot point, but what is your understanding of the duration of the sitting during the day?

Mr. Foulds: I thought we would start at 10 a.m. and go to 5 p.m., with an hour and a half for lunch.

The Vice-Chairman: All right. Any other comments or suggestions?

Mr. McFadden: One thing I understood was that if we do not adjourn next week, which could happen, that week would wind up in the week of the 16th or whatever it is of April, because we have to work through this list of stuff.

Now, I am not in disagreement with the point made by Mr. Foulds in relation to how we do our timing. The one thing I would suggest is, rather than casting in stone what he has just said, let us take that under advisement. I understand the scheduling group is proposing to meet early next week. I do not know how many submissions on the budget we have at this time and how many of them will want to have oral hearings, or for how many it would be appropriate to have oral hearings.

The Vice-Chairman: We have 45 at the moment.

Mr. McFadden: In the end, we might boil it down to two weeks, rather than three, when we really get into it. Rather than have a motion today, could I suggest we just discuss it in general?

It seems to me the principle the total committee could agree to is that the budget must be dealt with first. Then we will ensure at least--perhaps we could agree to this--we have at least a week for Bill 116. If it happens that we do not have that many people to go through three weeks on the budget, then whatever extra time we get could go to Bill 116.

With regard to the submissions received to date, from what I can see, it might not take us three full weeks to go through all the budget submissions and then prepare a report. However, let us just see how it works out. I think it is hard to do it here when we do not really have all the information.

Mr. Cordiano: I think what Mr. McFadden has said is very reasonable. Perhaps the subcommittee, if indeed there is one for this committee--

The Vice-Chairman: Yes, there is.

Mr. Cordiano: --should perhaps go through the various briefs and try to narrow it down. Then we would get a better picture of how long this whole process might take. I do not think you want to have every group that would like to make an appearance come before the committee--

The Vice-Chairman: As Mr. Foulds has suggested, I think that is very reasonable. Otherwise, we are going to be here for six weeks just listening to submissions.

Mr. Foulds: For the committee's purpose, and its original structuring, it has to put an emphasis on the budget. It just has to give that some priority. I understand the importance of this legislation, not only to the industry but also to the people of the province, because we have seen the problems and the difficulties for 15 years.

I would like to see us deal with it as expeditiously as we can. It is important in terms of this committee's own development as a committee of this Legislature, that it takes some initiative action when it comes to the budget and stuff, not just listen to the submissions. We can discuss this later on, but I think it should develop a report and it should take a look at certain sectors in terms of recommending to the Treasurer areas that he should look at in terms of both spending and revenue. In that budget area, there is other work that needs to be done other than just responding to public submissions.

The Vice-Chairman: That is a good point. I would also point out to the committee if they do not already know that Mr. Bond and his staff will be preparing briefs of the briefs, both on the budget and when associations interested in the trust companies bill present theirs. There will be briefs made of those as well for the committee.

Mr. Cordiano: Essentially, we are in agreement that we would want to be following a procedure whereby written briefs are submitted to the committee and we have an opportunity to look at those briefs and then put our questions to those briefs so when these people come before the committee, things will move along more quickly and more efficiently.

The Vice-Chairman: Yes, that is my understanding.

Mr. Cordiano: Excuse me, Mr. Chairman, but will we allow the subcommittee to determine that process?

The Vice-Chairman: I was going to interject on that. Is it the understanding of the committee that the subcommittee will subsequently determine who should make presentations? Is that the understanding?

Mr. McFadden: I thought the subcommittee would come to this committee with a report, setting up what we would propose. If the committee disagrees, then we will do something else, but I thought that was what we were proposing to do.

Mr. Offer: I have listened to everything here, and it seems to me that there are two issues I want to clarify. The four-week period is going to be broken down to either two or three weeks, possibly, for budget and the

remainder, be it one or two weeks, for Bill 116, determined by the steering committee I imagine.

The Vice-Chairman: I assume that will be in the report then for the committee to decide as well.

Mr. Offer: Fine, whatever. With respect to the week allocated for Bill 116, I would like to be clear that it appears there are going to be some written submissions provided to the committee. Has it been decided that is all the committee will be dealing with, with respect to Bill 116, amendments from the interested parties in written submissions, always with the discretion to call people for clarification?

The Vice-Chairman: I do not think it has been decided by the committee at this juncture. Until such time as we get the scheduling down, it is difficult for the subcommittee to make a recommendation to the committee. It may be implied that is the direction, but I suggest, and I stand to be corrected, that nothing is definitive at this juncture.

Mr. Offer: Second, if that first point has not been decided, which I can understand, is it understood that whatever form the public process may take, it will be limited to the week available to the committee?

The Vice-Chairman: The committee can only deal with the amount of time we are allocated.

Mr. Offer: On a third point--

Mr. Foulds: If I can speak to that, I do not think the committee can guarantee to report the bill at the end of that. It will have to see how much it can deal with and see whether it reports the bill, whether it reports the bill with a recommendation that it go to committee of the whole to complete its work, whatever. We cannot predict that at this stage it seems to me.

Mr. Offer: I understand that, I am just trying to get a clarification.

The third point I had was that whenever this public process does commence with Bill 116, is it going to take the process as if it were a clause-by-clause because of the type of written submissions we are receiving, or can we not discuss that or decide that?

The Vice-Chairman: You are going to strike out on answers on all three, Mr. Offer, I suspect. In that respect, it would be much more advisable to determine that when we find out exactly how much time we have to play with.

Mr. Foulds: Also it will be determined on the nature of the submissions.

The Vice-Chairman: I suspect a lot of the irregularities will be clarified.

Mr. Offer: I understand. I wanted to see if there had been any thoughts that were a little clearer prior to the subcommittee meeting.

The Vice-Chairman: If there are no other questions, the chair will entertain a motion to adjourn so we can all go into the House.

The committee adjourned at 11:40 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

INTERNATIONAL BANKING CENTRES

THURSDAY, FEBRUARY 12, 1987



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, R. E. (Wellington South L)

Ashe, G. L. (Durham West PC)

Cordiano, J. (Downsview L)

Foulds, J. F. (Port Arthur NDP)

Haggerty, R. (Erie L)

Mackenzie, R. W. (Hamilton East NDP)

McFadden, D. J. (Eglinton PC)

Ramsay, D. (Timiskaming L)

Stephenson, B. M. (York Mills PC)

Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:

Poirier, J. (Prescott-Russell L) for Mr. Ferraro

Warner, D. W. (Scarborough-Ellesmere NDP) for Mr. Foulds

Clerk: Carrozza, F.

Clerk pro tem: Manikel, T.

Staff:

Bond, D., Research Officer, Legislative Research Service

Witnesses:

From C. D. Howe Institute:

Carmichael, E. A., Vice-President

From the Ministry of Treasury and Economics:

Radwanski, G., Special Adviser to the Treasurer, Service Sector Study

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 12, 1987

The committee met at 9:10 a.m. in committee room 1.

ORGANIZATION

Mr. Chairman: We have a fair amount of activity today. The culmination of today's activity will be the report of your chairman, 11 pages long, on his one-day trip to Washington, which cost the committee a pittance compared to the way some people travel, let me tell you.

Mr. Taylor: We have read all about it in the newspapers.

Mr. Chairman: We also have a budget that we should be passing. I presume that members of the committee have all received information as to when the committee is sitting during the break. We will be sitting next week and then we will be sitting the week starting March 23, I believe.

Mr. Ashe: After the winter break.

Mr. Chairman: Yes, after the winter break.

Mr. Ashe: If was never established whether we were sitting five days a week or four days a week. I was away the last two weeks.

Mr. Chairman: We can establish that right now. We had a subcommittee meeting yesterday, which decided to recommend to the committee that we sit Tuesday, Wednesday and Thursday next week and thereafter meet Monday through Thursday and start at 10 in the morning, which is inordinately late, but your chairman had no objection to that. That would be Monday afternoons, as opposed to Monday mornings, for travel reasons. We will sit Monday afternoons, Tuesday, Wednesday and Thursday.

Because of the short time span in getting witnesses ready--the clerk was not aware that we would be sitting next week until yesterday or the day before--we decided we would not sit next week until Tuesday. Does that require a motion to be passed here?

Clerk of the Committee: Yes, I think so.

Mr. Taylor: A motion for the sitting days? Is that what you are referring to?

Mr. Chairman: Yes.

Mr. Taylor: Can we leave that and be flexible about it?

Mr. Chairman: Why do we not leave that.

In any event, if I do not hear anything to the contrary, what the clerk is in the process of doing is scheduling witnesses on the budget review for next week and for the week of March whatever. It is the view of some of us

that we should have the budget input as early as possible. If we wait until the end of our break, in actual fact, a lot of the budget will be in the process of being written.

Then we will spend approximately a week on Bill 116. This would be the weeks of February 16 and March 23 for the budget. The week of March 30 would be devoted to Bill 116, which leaves us the week of April 6 to conclude our report on corporate concentration and perhaps conclude any other reports we may have, either on the budget or Bill 116.

Mr. McFadden: Do you anticipate being able to finish Bill 116 in a week?

Mr. Chairman: That discussion occurred in my absence last week, but I understood that to be what was thought would occur.

Mr. McFadden: We spent a considerable length of time when Mr. Ferraro was in the chair with the ministry officials and the trust company people and others who were here. The ministry officials estimated it would take 50 hours of committee time to deal with Bill 116, including submissions and clause-by-clause consideration. During that time, we suggested we would prefer, if we could, to avoid a lot of extra submissions and hearings.

They were assuming that we would have something like 10 to 20 hours of public hearings, people coming and going, on this whole area. It was the view of the committee and also of the various associations in the ministry that after all the white papers and all the other hearings and groups that have had various studies on this matter, we could dispense with the general hearings and get down to clause-by-clause discussion.

We then suggested to the ministry and to any other parties who had an interest--we located seven groups that we thought would have specific interests--rather than their showing up and giving us their general thoughts when the different sections came up, that in advance of the hearings they submit to us in writing the amendments they wanted, along with explanations, so that we would know exactly what they were talking about.

The feeling then from the minister was that there would probably be 30 hours of hearings. Our feeling at that time was that we would do the budget, we were hoping, in two weeks, which would leave us two weeks on loan and trust legislation. Even then we might be pressed, but we thought we might be able to do it.

If we were to get on the corporate concentration as well, based on what we heard last week, it would be a miracle. It is possible that this committee will move faster than has been the normal case with committees.

Mr. Ashe: Not likely.

Mr. McFadden: Based on what I heard last week from the various interested parties, including the ministry officials, my feeling is that corporate concentration will not be reached until we get back into session

Mr. Taylor: If that is so, we may have to sit all day Monday instead of half a day. Presumably, that is why we leave the possibility there.

Mr. Chairman: That is why we should leave it free. It was a problem. I think the northern members are both New Democratic Party members, and they might have transportation problems. I understand also that was the party which did not want us to sit April 13.

Mr. Taylor: They could come in on Sundays.

Mr. Chairman: We could sit Sundays? Let us leave that open then.

I appreciate your enlightening me on that, Mr. McFadden. I thought it had been cut down more than that.

The minutes of the subcommittee which met yesterday have now been distributed. The only other thing that may need a motion is a decision the subcommittee made that we should advertise once for Bill 116 just to protect ourselves as a committee, not that we would expect a lot of input from the general public, but there have been examples of committees getting into legislation and then having criticisms made that they have not advertised widely enough.

Mr. Taylor: I think the advertising should not be simply that of going through the motions to protect our own backsides, so to speak. Advertising should be informative and, presumably, of an invitational nature. The committee also has to be selective, however, about the process, that is, whether they be written submissions or verbal ones, and also about whom the committee is able to hear in the light of the extensive studies of the issues over a long period of time. It really goes over a period of years.

Mr. Chairman: Your chairman was perhaps a little too cynical in his comments. I think you are right, Mr. Taylor. The decision was taken, though, that the advertising would be similar in wording to the budget advertising inviting written submissions so that we could thereafter choose whom we wish to make oral presentations. I do not know if that has been redrafted yet. I think the chair already has permission to go ahead with that as a result of a previous motion from the committee. We had delayed it, but we will be going ahead with that in the near future.

0920

Finally, as a housekeeping matter, we have to pass a budget which finances the committee during the period between sessions. I believe you have a budget before you. The draft budget before you includes a couple of matters that might be of some concern to the Board of Internal Economy, one being the Washington trip.

Mr. Ashe: Is that what you spent?

Mr. Chairman: No, that is not what I spent. That is a proposed trip that was discussed yesterday in the subcommittee.

Mr. McFadden, would you like to speak to that?

Mr. McFadden: The select committee on economic affairs, which dealt for 15 months with the trade options, made the recommendation by unanimous agreement of all parties that there be established a regular exchange of visits and a regular program put together of committees of this Legislature to visit legislators in the United States.

Currently, both the House of Representatives and the Senate in the United States are considering major trade legislation. It is expected that during the course of this year both houses will approve a trade act. It could well become even veto-proof if the White House decides to stop it, although there is an indication they probably will try to compromise on it.

The period when both the Senate and the House will be considering this legislation is March and April, with the idea that it will certainly be going to the floors of both houses, likely this spring, as I understand it. As a consequence of that--and we discussed this yesterday--I felt it would be useful for this committee or a subcommittee of this committee, a representative group of each party on this committee, to act on the recommendation of the select committee and speak to American legislators during March or April, to report back as to our findings on the trade legislation being proposed and to get an idea of the kinds of things we could expect to have in it, which I think is a key part of any discussion or analysis we would want to make about our economic future.

I think it is probably useful, based on my previous discussions in Washington--and I think yours, Mr. Chairman--that there be exchanges between Canadian and American legislators. The exchange of information and views and the discussion of mutual concerns are worth while to both countries, and certainly at the critical time when congressmen and senators are considering major legislation. I cannot think of a time that is more important to this country to be talking to people in American congress than today. If there ever was a time to act on the select committee's report and to take some action, the time is now.

I am not recommending that we make an extravaganza down there for a week or two. I am just suggesting that we could set up a very tightly organized agenda and meet with the northeast and midwest coalition, a number of other key congressmen and possibly senators who have an interest in this, along with key staff, give them our views on it and try to get from them what they are thinking of doing. I think that process would be worth while.

Mr. Chairman: I believe, as a result of that discussion, a budget was struck that would permit one person from each party.

Mr. McFadden: That would include everybody.

Mr. Chairman: The \$15,000 would include everyone?

Mr. McFadden: The \$15,000 would include everyone.

Mr. Chairman: Yes, it would when you think about it.

Mr. McFadden: I throw this out for members to consider. Eleven is a lot of people to go and meet people there. We could split up into small groups and meet different people over a two-day period. We could have three here and three there, going all over to meet different people and meet together every day to tell one another what we find out. The other route is to have each party designate one or two spokespersons to go down and then report back to the full committee on what they find.

Obviously, if we have a representative from each party, we reduce the cost. I do not know whether we reduce the effectiveness. I just raise that as a choice we have. The \$15,000 would include the whole committee and staff.

Mr. Taylor: Where would you work this into the schedule, Mr. Chairman? If we have four weeks maximum--I think that is set by the House now--we cannot expand that time frame of four weeks. When would you propose to work in a week on a trip to Washington? I am not knocking the trip in regard to representation. If it is an expedition to the US Congress to disseminate the Ontario views, I think the whole committee should be on that expedition. I am just wondering how to work that into our schedule.

Mr. Chairman: I do not know. I am in empathy with Mr. McFadden's comments, but I do not know when we would find the time.

Mr. McFadden: If we are sitting on the Monday-to-Thursday scenario, we could plan on going down on the late flight on Wednesday--I am just trying to set the scene--and come back on the Friday, or we could go the other route, go down on the Sunday and come back on the Tuesday.

Mr. Warner: The scheduling issue is one little problem. For starters, we might want to determine as a committee the priorities of the agenda, whether Bill 116 is supposed to be completed before the House resumes or whether it can be carried over to when the House is sitting again.

From my experience on other committees, such as the select committee on company law, we went to Washington, all 11 members, and we met with a variety of people, all of who were extremely helpful to us. On the standing committee on the Legislative Assembly, when we were looking at conflict of interest and patronage, the meetings we had down there were with the full committee. Although it sounds like a lot of people, it really went quite smoothly and it was very useful. We received terrific co-operation from our consulate there, which arranged a series of meetings, transportation and so on. I felt it was extremely valuable.

Obviously, any committee that goes from here down there bolsters the relationship between the two jurisdictions, and that in itself is important. I certainly would urge that the entire committee go and travel together and that we allow ourselves sufficient time so that we can meet with people and not shortchange ourselves or come away feeling we have had a one-day wonder in the place.

I realize scheduling is a problem, but maybe we want to take a look at how we prioritize what we have ahead of us and set aside an appropriate amount of time for the visit to Washington. I think that is an important item.

Mr. Taylor: Mr. Chairman, can we leave this to the subcommittee to see if it can work it into our scheduling? It may have to be that we travel on a Sunday or a Saturday. I agree it would be worth while and the time is appropriate.

Mr. Ashe: Just to end it from my perspective, I think Jim's idea is the right one. We have to leave the when and the how to the subcommittee. I feel, particularly after the discussion that has taken place, it has really been enhanced and endorsed by everybody that it is a useful and, in my view, a necessary exercise. The only option is to say to the subcommittee, "Arrange it as you see fit, but arrange it." That is the way I want to leave it.

0930

Mr. Chairman: I think the chair has received the message. We may be looking at somehow squeezing some time out of the week of April 6. What we

need now is a motion to pass that budget, which merely permits your chairman to take it to the Board of Internal Economy and it will look at it again.

Mr. Warner: Does the subcommittee deal with this?

Mr. Chairman: Yes, the subcommittee looked at it in a very rudimentary fashion and said we should add the Washington trip.

Mr. Warner: Other than that, they do not see any problems with it?

Mr. Chairman: I do not see any problems.

Mr. Ashe: In going to that august body with a budget of \$53,000, you will be the piker in the group. You should not have any problems.

Mr. Chairman: I have not so far.

Mr. Ashe: You will not with those kind of numbers. I have seen some of them go with substantially more than that, like tenfold.

Mr. Warner: Put another zero on it.

Mr. Chairman: Mr. Ashe moves that we pass this budget. Any discussion? All in favour?

Agreed to.

INTERNATIONAL BANKING CENTRES

Mr. Chairman: Back to our draft international banking centre report. I believe members have a new draft in front of them, if they want to look briefly at the conclusion.

Mr. Taylor: Can we not start at the beginning?

Mr. Chairman: We started at the beginning last week and there was some feeling that members wanted to know where we were going.

Mr. Taylor: That is why we had the resolution the last day to endorse the conclusion.

Mr. Chairman: All right. So you all know what the conclusion is. All right. Let us start at the beginning. Perhaps, Mr. Bond, you can lead us through it. We will simply do nothing unless I hear some murmuring.

Mr. McFadden: Just to be sure that we are all reading from the same document, I take it the document we are taking about, for certain, is the one we received from Franco dated February 9?

Mr. Chairman: That is my understanding.

Mr. McFadden: There has been more than one copy of this, you know.

Mr. Chairman: On page 5, it has a long conjunctive sentence at the end. All right?

Mr. Bond: "The announcement on January 28, 1987, by the federal government concerning proposed legislation designating Montreal and Vancouver

as international banking centres, IBCs, is an ill-conceived intervention in Canada's financial marketplace."

Mr. Taylor: I object to that. I think it is a little strong to say it is ill-conceived. It may or may not have been ill-conceived. I think it is inappropriate, but I do not know that it is ill-conceived.

Mr. Ashe: I think "inappropriate" is a better word.

Mr. Taylor: I just want to be softer. I think probably it was a proposal that was thought to be constructive and I do not want to judge that.

Mr. Ashe: I think "inappropriate," the word you used there, is a good word.

Mr. Warner: I appreciate that you want to stand up for poor old beleaguered Brian, but I do not understand what is wrong with "ill-conceived." It was not a properly conceived idea.

Mr. Taylor: I do not know about that.

Mr. Warner: It was not the kind of thoughtful suggestion which was helpful.

Mr. Taylor: You are going to put in your minority report anyway.

Mr. Warner: Okay, so you want--

Mr. Taylor: Do not get too exercised over this.

Mr. Warner: What word to you want in there? "Inappropriate"?

Mr. Taylor: "Inappropriate."

Mr. Warner: "Inappropriate intervention"? I agree.

Mr. Ashe: It was conceived in the right atmosphere anyway. That is for sure, maybe outside the normal relationship.

Mr. Chairman: I hear a consensus to substitute--

Mr. Warner: I could substitute a few swear words.

Mr. Chairman: --"ill-conceived" with "inappropriate."

Mr. Warner: I just want to make sure you realize I am awake.

Mr. Bond: "The standing committee on finance and economic affairs is concerned that the exclusion of Toronto from designation as an IBC sends a confusing signal to the international financial community.

"The fact that Toronto is Canada's leading financial centre is not in question. Of the 62 domestic and foreign banks--schedule A and schedule B respectively--in Canada, 47 have their head offices in Toronto as compared to 11 in Montreal and four in Vancouver. Approximately 75 per cent of all banks operating in Canada are headquartered in Toronto.

"Three of the five major Canadian banks have their head offices in

Toronto. The two largest banks, the Royal and the Bank of Montreal, while officially headquartered in Montreal, carry out much of their head office activities from Toronto. All of the banks run their foreign exchange operations from Toronto as well."

Mr. Ashe: On those two paragraphs, it is not overly important but do you want to just verify the status of the Bank of Nova Scotia? I think their head office is officially in Halifax and not Toronto, albeit that for all practical purposes everybody, including the president, the chief executive officer and I think the chairman of the board, works out of Toronto, but Halifax, Nova Scotia, is officially the head office. It is not particularly important, but if we are going to be making the reference to Montreal, I think we should verify that one way or the other. I am not 100 per cent sure, but that was my understanding. I meant to check it out and, frankly, I did not get a chance to.

Mr. McFadden: It would appear on their annual statement.

Mr. Ashe: Their 1986 annual report has just recently come out. I know their annual general meeting was held in Halifax.

Mr. Chairman: I know it used to be Halifax.

Mr. Ashe: I know the fiscal report for this year was released just a couple of weeks ago in Halifax.

Mr. Chairman: All right. Why do we not let Mr. Bond check that out and correct it accordingly, if that is the case?

Mr. Bond: "The Canadian Bankers' Association has made it clear that the chartered banks have never asked for legislation to create IBCs in Canada and have consistently complained about the lack of any consultative process. If the federal government is determined to proceed with the legislation, the CBA has argued that market forces must be allowed to determine the location of IBCs.

"The IBC designation will mean that banks in Montreal and Vancouver will receive a tax exemption for the income earned on certain international transactions. Only loan and deposit activities carried on with nonresidents at arm's length will be eligible."

Mr. Taylor: Is that so? Only loan and deposit--

Mr. Ashe: Excuse me, there is a mouse in the waste paper basket.

Mr. Taylor: I knew there were rats in the Legislature, but I did not know there were mice.

Mr. Chairman: We will have to get a legislative cat. All right, let us get back to business. Mr. Taylor, you had a question about IBC.

Mr. Taylor: I think we are okay until the last paragraph.

Mr. Chairman: All right.

0940

Mr. Bond: The federal tax subsidy to Montreal and Vancouver,

intended to attract international banking activity, is, according to most research studies, not likely to create any incremental wealth or employment. An internal study by the federal Department of Finance concluded that 'such centres would be of little benefit to the Canadian economy or any particular region of the country. At the same time, the proposal eventually would lead to a significant erosion of the federal tax base.'

Mr. Taylor: In that paragraph, I would suggest that you use the words "tax exemption" instead of "tax subsidy," the same words used in the previous paragraph, because you are talking about a tax exemption on certain international transactions.

Mr. Bond: All right.

Mr. Chairman: Does everyone agree?

Agreed to.

Mr. Chairman: Change "subsidy" to "exemption."

Mr. Bond: "More recently, the federal government commissioned a study by former Bank of Canada Governor Louis Rasminsky and William Lawson, which confirmed the possible negative consequences and concluded that:

"...Canadian efforts to develop into an international banking centre would meet intense competition from the existing centres and from other places with a potential as great as ours, and...it would be unwise to force the issue by vigorous tax competition. If the view is taken that such priority should be given to increasing Canada's role in international financial affairs, it is our opinion that the way to pursue that goal is to take care that the tax arrangements in Canada are no less favourable than they are in the major international banking centres and that foreign banks in Canada are given as much flexibility for their international operations as they are given in those centres."

Mr. McFadden: I was trying to figure out how this all came together. The final sentence in the first paragraph on this page is saying that the proposal eventually would lead to a significant erosion of the federal tax base? We have not provided any proof of that. It may happen, I suppose.

Mr. Warner: That is a quote.

Mr. Chairman: From the Finance minister.

Mr. McFadden: It seems to come from a letter.

Mr. Bond: Yes. It has come from a letter from the minister.

Mr. McFadden: Is it from a study? I am not quite clear what that came from. That is what I am getting at.

Mr. Ashe: The footnote at the back identifies it. It is from a 1983 letter by Marc Lalonde, Minister of Finance, to J. A. Collins, general manager of the Board of Trade of Metropolitan Toronto.

Mr. Bond: He was quoting a study in his letter.

Mr. McFadden: Okay. That is what I was getting at. I was trying to

figure out what this study involved. I notice it mentioned a letter rather than a study.

Mr. Chairman: Would you prefer that the actual report indicate that the Honourable Marc Lalone quoted from an internal study in a letter?

Mr. McFadden: In terms of whatever impact we hope this will have, if we can cite the study itself rather than a letter of somebody citing the study, it should have somewhat more credibility. But if we do not have a copy of the study, we do not even know what the study really said in itself, for sure.

Mr. Taylor: Do we accept the conclusion?

Mr. McFadden: I do not know enough about it to know whether that is true or false.

Mr. Taylor: That is the indication, that we are accepting that conclusion.

Mr. McFadden: The Rasminsky thing is quite definite and it is persuasive. I am not saying it in any way erodes what we are saying later. The Rasminsky one is very persuasive. He is a man whom we know of, we know his experience and so on. This earlier thing, this letter, when we have not even seen the study yet, I just have a question about what it is saying; that is all.

Mr. Taylor: Why do we not take it out?

Mr. Warner: But it was in the letter because it came from a study. Is that correct?

Mr. Chairman: That is right.

Mr. Bond: He was using the study as his reason for not supporting the proposal.

Mr. Chairman: I think everyone agrees with the first conclusion. Mr. Taylor, are you concerned about the second conclusion?

Mr. Taylor: Yes, I think that we could very well take out the second and third sentences and that would eliminate the problem. We have reached our own conclusion in the first sentence there.

Mr. Warner: Which sentence are you talking about?

Mr. Taylor: The last sentence on page 1. "An internal study by the federal Department of Finance concluded that..." and then there is the quotation. Right?

Mr. Warner: Why take it out?

Mr. Chairman: Why take it out? I should not say that; you said it.

Mr. Taylor: Because by putting it in, we are really accepting that conclusion without the appropriate investigation. I think that is the point Mr. McFadden has made.

Interjections.

Mr. McFadden: The way it reads, the quotation appears to come from the study. Just read the English, David.

Mr. Warner: Yes.

Mr. McFadden: It "concluded that." The implication is that it is a quote from the study, but I am saying that what we have is a quote from the letter citing the study.

Mr. Warner: Yes.

Mr. McFadden: That is what I am getting at.

Mr. Warner: I agree with you, because the wording of the sentence suggests that the quote is from the study. If, in fact, the quote was contained in a letter citing the study, then--

Mr. McFadden: I think it should be stated.

Mr. Chairman: I think I am hearing two things. I am hearing some criticism of the way it is written, but I am also hearing Mr. Taylor say he is not necessarily in agreement with the conclusion in its entirety and wants those two sentences removed.

Mr. Warner: If it is information--

Mr. Chairman: I think the rest of you are saying it is all right to have it in, but let us make it clear.

Mr. McFadden: Make it more accurate. That is correct.

Mr. Ashe: The quote reminds them of that comment. That is all. They may have overlooked it in Ottawa.

Mr. Taylor: We are talking about "a significant erosion of the federal tax base." From what I understand from what this committee has heard, there is no activity here in that regard now; in terms of job generation and additional economic activity, it is probably close to zilch, if I can use that expression.

Mr. Ashe: Yes, but do not forget--

Mr. Taylor: Are we now concluding as a committee that there will be a significant erosion of the federal tax base?

Mr. Ashe: Keep in mind, Jim, you have to read the whole thing.

Mr. Chairman: Bear in mind you have decided to leave Hansard on. Let us try to speak one at a time.

Mr. Ashe: But you have to read the whole thing. "The proposal eventually would lead to a significant erosion of the federal tax base." That is quite possible. Do not forget; through the dialogue and the problems that have been raised, as I understand it, by the time Wilson introduced his ways and means motion in the past week or two, it was considerably watered down from what was originally intended.

If everything is in the international banking portfolio, if you will, then this is correct. There is still the feeling by many, rightly or wrongly, that even this watered down one now is to get through the hue and the cry and then you expand the operations later. So again, you are back to "the proposal eventually would lead to a significant erosion of the federal tax base." Generally, the feeling of the bank, obviously, in the study by the Ministry of Finance is, "Why do it?" As you say, the amount of business we are getting anyway probably will not be significantly enhanced, and you are going to lose tax money.

Mr. McFadden: The only thing that would resolve this, unless we actually get a copy of the study and then cite specifically what it said, might be wording of this nature. In discussing the concept of international banking centres--remember, this is four years ago now; this federal study in no way related to the current federal proposal anyway, so I think all we might be able to say is "that an internal study by the Department of Finance on the concept of international banking centres suggested that such a proposal could or would eventually lead to a significant erosion of the federal tax base," or something of that nature. We do not even know for sure what that study said, except from the letter.

Mr. Warner: Do you have a copy of the study?

Mr. Bond: No, I do not.

Mr. Warner: Is it easy for you to confirm that the quote here on page 2 is actually from the study?

Mr. Bond: Unless I have the study to compare the quote to, it would be difficult.

Mr. Warner: What you do have is the letter?

Mr. Bond: The letter.

Mr. Warner: The letter uses this quote and claims that it is from the study?

Mr. Bond: That is right.

Mr. Ashe: Is it in quotes?

0950

Mr. Warner: If you could confirm that the quote in actual words, verbatim, was from the study, then it would be simpler just to confirm that and footnote the study rather than the letter.

Mr. Bond: It is possible, but if you wanted to report it to the House today, it is unlikely that I would be able to confirm that.

Mr. Warner: All right.

Mr. McFadden: I think we are all in agreement with the first sentence of that paragraph, that it is not likely to create any incremental wealth or employment here. Our only problem is the last bit of that paragraph. I think we should either quote the study, generally allude to it or leave it out. I do not think too much comes from quoting from something that came from a letter, without being sure what the study itself said; that is all.

Mr. Cordiano: I think we are making too much of this; I really do. We are spending far too much time on this particular sentence. if you will. Let us move on. I do not think it makes that much difference in the overall scheme of things. The intent is there. We are all in agreement with the intent of the paragraph. If you want to change the wording around, I will agree with whatever wording you may want to use to dilute that or change it around to suite your own purposes. I really do not give a damn. I think it is insignificant.

Mr. Chairman: Perhaps we could agree to have Mr. Bond reword that paragraph so it is clear that we are depending on Mr. Lalonde's interpretation of the study. I think Mr. Taylor is not necessarily in agreement with the conclusion, but there would be--

Mr. McFadden: I am not sure how valid it is. The letter is four years old and he is not responding to the current federal proposal or any proposal that has come up in the last two years. I do not think it adds a lot of strength to our submission.

Mr. Taylor: Why do you not move that it be deleted? We will vote on it. If it is not, we will leave it in and away we go.

Mr. Chairman: Are you moving that, Mr. Taylor?

Mr. Taylor: I will move it, sure.

Mr. Chairman: Mr. Taylor moves that we delete the last two sentences of the last paragraph on page 1, after the word "employment."

Motion negatived.

Mr. Chairman: It is still left in.

Do we have general instructions to Mr. Bond simply to clarify the source? We will leave it in his capable hands.

Mr. Warner: The least you can do is clarify the source. If you are going to clarify the source, put in the date of the letter; so anybody reading the report will know it is a four-year-old letter.

Mr. Chairman: The date is in the footnote, but you want it in the text; is that right?

Mr. Warner: Yes, put it in the text.

Mr. Chairman: I think Mr. Bond understands that instruction pretty well.

We now have also read through the quote from Rasminsky and Lawson. Any problems up to that point? All right, the Honourable Don Blenkarn.

Mr. Bond: "The Honourable Don Blenkarn, chairman of the House of Commons standing committee on finance and economic affairs, has labelled the federal proposal 'divisive.' With the federal amendments to the Income Tax Act reinforcing Quebec's legislative support for an international financial centre in that province, some banks may be tempted to move their international banking activities to Montreal. In addition to intense competition from offshore banking centres who might feel threatened by the Canadian

government's plan to establish IBCs, Toronto's exclusion could lead to a costly interprovincial tax war to attract or retain international banking business."

Mr. Taylor: That is our conclusion?

Mr. Chairman: Yes.

Mr. Bond: "Clearly, this is not in the best interests of the country."

Mr. Taylor: I think it is being a little extravagant to conclude that.

Mr. Warner: Why?

Mr. Taylor: I do not think that would happen: "Toronto's exclusion could lead to a costly interprovincial tax war."

Mr. Ashe: It is possible.

Mr. Chairman: There were hints to that effect, but do you wish to have that one sentence removed, Mr. Taylor--or two sentences?

Mr. Haggerty: If we do, we might as well take the whole paragraph out.

Mr. Ashe: I think it is relevant.

We should verify whether Don Blenkarn is "honourable." Unless he is in cabinet, which I do not think he is, and a member of the privy council--

Mr. Chairman: No, he is not. You are right; we will take out the word "honourable."

Mr. Warner: As we go through this whole report--after all, it is the body of the report we are dealing with; it is normally the conclusions that are an important aspect--we want wording in the body that will sustain our conclusion. You also, I think--at least, I hope--want to have a report that reflects what was sent to this committee. We had a resolution of the House which was forwarded here; right?

Mr. Chairman: No. We have done this on our own.

Mr. Warner: You have done this on your own?

Mr. Chairman: Yes.

Mr. Warner: But you are certainly cognizant of the resolution of the House, I assume. Therefore, you want to do something that is in keeping with what the House has said unless you have determined to be a maverick committee.

Mr. Cordiano: We went through all this. We have determined that it was very important for this committee to have an independent report, independent of whatever took place out there and the political realities of--

Mr. Warner: I see.

Mr. Chairman: Were you present during the House today, Mr. Warner?

Mr. Warner: Yes.

Mr. Chairman: Did you think it made any sense?

Mr. Mackenzie: The House does not count?

Mr. Cordiano: We are the real thing here.

Mr. Mackenzie: It is nice to hear that.

Interjection.

Mr. Chairman: Mr. Warner has the floor.

Mr. Warner: We can get into the debate later on. Occasionally in the history of this Legislature, committees have decided to go off on wild tangents on their own. That happens. We are quite aware of that. The House just has to live with that.

I think the sentence to which Mr. Taylor objects, "Clearly, this is not in the best interests of the country," is a valid conclusion based upon the information presented to the committee. I do not see any reason to take that out or to water it down.

Mr. Taylor: What I questioned was the conclusion that there would be a costly interprovincial tax war; that is what I have focused on. Quebec has already passed the legislation. What is the provincial response here? The provinces are not responding to Quebec's initiative in this regard. If the provinces are not responding, one by one, to Quebec's legislation, which is already on the books, how can you conclude that there is going to be a costly interprovincial tax war?

Mr. Chairman: Mr. Taylor, are you moving that we remove the reference to a costly interprovincial tax war?

Mr. Taylor: That is right.

Mr. Chairman: Any discussion on that?

Mr. Cordiano: Let us vote on it.

Mr. Chairman: All in favour? Opposed? Rejected.

Next paragraph.

Mr. Bond: "The long-term effects of designating specific cities might entail taxation losses by encouraging the transfer of banking activities currently booked in Canada. The danger exists that if the scope of the transactions booked at IBCs is expanded at some future date then it may be necessary for a chartered bank to move its total money market operation from one city with no IBC designation to another with an IBC designation. In this case, large numbers of employees would be involved. The necessity of such a move is inherent in the technological innovations that have transformed the traditional banking activities of banks. Loans and deposits which were formerly a separate function are now strongly linked with international money market operations. The Canadian money market, the foreign exchange market and

the interbank deposit market are linked through the trading desks of the banks in a large integrated network, in which multimillion-dollar commitments on the asset side are immediately offset by deposit-gathering operations on the liability side and by hedging operations in the international currency markets. These previously independent banking operations are effectively inseparable. The question of the widening of the scope of the transactions booked at IBCs becomes a future land mine for Toronto and Ontario."

1000

Mr. Taylor: Again I question the extravagance of the words "land mine." That is the conclusion the committee is reaching. I do not think the evidence I heard was of a nature to make me conclude that we have a land mine. I feel it should be softened somewhat.

Mr. Chairman: Do you have an alternative word?

Mr. McFadden: How about "danger"?

Interjection.

Mr. Taylor: Sure you would. "Reactionary" or "revolutionary." How about "hyperbole"?

Mr. Warner: How about "an explosive situation"? Would you prefer that?

Mr. Chairman: Would you prefer the word "problem," Mr. Taylor?

Mr. Taylor: Yes, sure.

Mr. Chairman: "Future problem"?

Mr. Taylor: Yes, that would be much better.

Mr. Chairman: How does that fit with the left?

Mr. Warner: I liked "land mine."

Mr. Mackenzie: You mean the progressive wing of the Legislature, do you not?

Mr. Chairman: Mr. Taylor is moving that we change "land mine" to "problem."

Mr. Warner: A land mine is a problem.

Mr. Taylor: Of a different dimension.

Mr. Chairman: All in favour?

Mr. Cordiano: Of what?

Mr. Chairman: Changing the words "land mine" to "problem."

Mr. Haggerty: I thought "explosive" was more appropriate.

Mr. Cordiano: I am going to vote not to change.

Mr. Chairman: Opposed? It is defeated.

Mr. Bond: "In addition, if tax preferences are employed to effectively force international banking centres to be located in Montreal and Vancouver rather than Toronto, then those centres would by definition be less efficient than they would have been if market forces had determined their location. By forcing international banking activities to be conducted in not one, but three Canadian cities (Toronto is already the centre for most international banking activity in the country), the federal government is structuring new inefficiencies into the system.

"The federal initiative is also not likely to generate incremental employment. The creation of international banking facilities in the United States was originally expected to have significant job creation value. However, a 1984 survey by the US General Accounting Office of 72 banks operating IBFs in the United States, representing about 40 per cent of total IBF assets, found that:

"Officials at only 15 of the banks we interviewed said that their staff had increased because of IBFs. Ten of them placed a number on the increase; only 55 to 67 new jobs were reported to have been created by IBFs."

"If you project this number for all of the United States you find that IBFs were responsible for creating only 150 new jobs. This figure includes employment arising out of IBFs in New York City.

"The Canadian Bankers' Association has pointed out that the Canadian financial system constitutes about four per cent of the world financial system and that the Canadian dollar is a relatively minor currency. Most transactions are booked in US dollars and most transactions occur in London and New York. Canada is, therefore, unlikely to attract mainstream international money market business because of an IBC initiative.

"The federal Minister of Finance has stated on a number of occasions that a major policy objective of the legislation is to attract international business activities currently done offshore in such places as the Channel Islands and Panama. It is questionable how much offshore business Canada will be able to attract and what, if any, are the economic advantages of having this business booked in the country. Bank of Canada statistics show that as of June 1984, total foreign assets of Canadian banks in 'offshore centres,' such as Panama, were about \$26 billion. According to an economic formula developed by the Canadian Bankers' Association and based on the US experience, no more than one new job for each \$1 billion in assets is the likely outcome. In the unlikely event all of this offshore business were transferred to Canada, a maximum of 26 jobs would be created. Another concern is that if the federal government is seeking through this legislation to make Canada a tax haven of the north, it is a policy of highly questionable merit.

"The federal proposal, while not expected to create many new jobs or economic gains for Canada, does create a negative perception, e.g. that the status of Toronto as Canada's leading financial centre is being downgraded. The arbitrary designation of Montreal and Vancouver combined with the exclusion of Toronto will be interpreted by the international financial community as an official bias against Toronto. Although foreign bankers and financiers are sophisticated and knowledgeable in the area of international banking, they cannot be expected to understand the reason behind the federal initiative. International bankers and financiers are themselves highly sensitive to directives from national governments.

"While there is little substantive economic content remaining in the federal IBC designation (the legislation is now limited to tax subsidies"--perhaps that should read "exemptions"--

Mr. Taylor: You have gone unscathed throughout this page. I was going to suggest you change that.

Mr. Bond: --"for nonresident loans and deposits), the range of eligible activities can easily be expanded at a later time by means of amendment."

Mr. McFadden: Just one point. I am trying to wrestle with an earlier thing. In the previous paragraph, starting "The federal proposal," there is "e.g." Do you mean "i.e.," first of all?

Mr. Bond: Yes.

Mr. McFadden: Second, in view of the fact this is a government report, I wonder whether instead of using "e.g.," we might put in a semicolon after "perception" and say, "it creates the image that the status" etc. In other words, just not "create a negative perception"--

Mr. Bond: I think that would be--

Mr. McFadden: I know it is shorthand in common use, but it would be preferable to say, "it creates the image that."

Mr. Bond: That would be better grammatically.

Mr. Taylor: Do you want to move a motion on that?

Mr. McFadden: "Does create a negative image"?

Mr. Bond: I do not think there would be any opposition.

Mr. Taylor: Are you not objecting to that?

Mr. Cordiano: No.

Mr. McFadden: No; just "creates the image that."

Mr. Bond: "Creates the image that."

Mr. McFadden: It should be a model of good English.

Mr. Chairman: Yes. Page 5.

Mr. Bond: "The amendments to the Income Tax Act that are necessary to establish IBCs in specific locations are inconsistent with the federal government's promise of comprehensive tax reform. The purpose of tax reform is to ensure a more equitable distribution of the corporate tax burden, not to create an unusual bias in the system. IBCs will allow banks to avoid paying tax on a limited number of transactions in two particular cities in Canada.

"The standing committee on finance and economic affairs believes there is very little to recommend the federal proposal. The precedent set by the federal initiative is potentially harmful and divisive as it uses the tax system to benefit two particular cities at the expense of others.

"The federal government has offered no rationale or explanation for choosing some cities for the IBC designation while excluding others. The standing committee on finance and economic affairs is not seeking preferential treatment for the city of Toronto. There are a number of Canadian cities where international banking activities are ongoing, including Halifax, St. John's, Montreal, Toronto, Regina, Edmonton, Calgary and Vancouver to mention but a few. The standing committee on finance and economic affairs is asking the federal government for equitable treatment for all Canadian cities, so that each city can have equal access to the tax incentives"--"exemptions" perhaps?--"offered through an IBC designation."

Mr. McFadden: "Tax treatment."

Mr. Chairman: "Treatment"?

Mr. Cordiano: Yes, "treatment" is a better word.

Mr. Warner: If the committee is prepared to accept that last statement, it should at least know that is running completely opposite to what the Legislature believes. If the committee is prepared to do that, that is one thing, but you should at least be aware that is totally opposite to what the Legislature has said.

Mr. Chairman: In that the Legislature has indicated--

Mr. Warner: Yes, that we did not want the concept at all; not that the concept then should be equally available to every city in Canada.

Mr. Chairman: No. I think everyone is cognizant of that.

Mr. Haggerty: But we are not prepared to change it because this is the committee's report, not the Legislature's.

Mr. Chairman: I think there is a feeling in the committee that we may have studied this a little more thoroughly than the Legislature.

Mr. Haggerty: That is right.

Mr. Mackenzie: We probably understand it less.

Mr. McFadden: Maybe this is not like last time, but our feeling was that we were a bit pre-empted here part-way through. We feel this covers both eventualities; it says let us go ahead with this one, but we are not supporting its going ahead.

Mr. Taylor: It is the political ecumenical spirit.

Mr. Warner: Ecumenical spirit?

Mr. Taylor: It is a compromise.

Mr. Warner: Did you have a discussion about banana republics while you were at it?

Mr. Taylor: No.

Mr. Mackenzie: How long can you straddle a fence without coming up with a real hernia?

Mr. Chairman: There was a spirited discussion about sleazebag banks or something of that nature.

Mr. Taylor: The Channel Islands are not banana republics.

Mr. Haggerty: It is a leap of faith.

Mr. Taylor: That was your Donald Macdonald.

Mr. Chairman: We are coming to our final conclusion now. It is in heavy type.

Mr. Bond: The report concludes:

"The standing committee on finance and economic affairs recommends that the Treasurer of Ontario and the Minister of Financial Institutions enter immediately into discussions with the federal Minister of Finance to withdraw the international banking centre legislation, and in the event that the federal government should decide not to withdraw the international banking centre legislation, to amend the said legislation so that all Canadian municipalities may benefit equally from an IBC designation."

Mr. Chairman: Is there any discussion? All in favour?

Mr. Warner: No.

Mr. Chairman: Opposed? Carried.

Mr. Warner: I request a recorded vote.

Mr. Chairman: Your opposition has been recorded.

Mr. Warner: I want the names.

Mr. Chairman: Do you want me to call the names?

Mr. Warner: Yes, please.

Mr. Taylor: The motion is for the adoption of the report?

Mr. Chairman: Yes. It has been moved by Mr. Haggerty that the report be adopted in its entirety. I saw four hands in favour and two opposed. Perhaps you could call the names of those present.

Clerk of the Committee: Mr. Haggerty--

Mr. Haggerty: I did not ask for a recorded vote.

Mr. Warner: I did. That is the proper procedure.

Mr. Chairman: Mr. Mackenzie has asked for a recorded vote.

Mr. Haggerty: When?

Mr. Warner: I called for it after the vote was taken. That is the normal way.

Mr. Cordiano: So we have a recorded vote. Let us get it over with.

Mr. McFadden: Who cares? This is getting ridiculous.

Mr. Warner: If I were you, I would not want my name recorded either.

Mr. Cordiano: It is not a problem.

The committee divided on Mr. Haggerty's motion, which was agreed to on the following vote:

Ayes

Cordiano, Haggerty, McFadden, Taylor.

Nays

Mackenzie, Warner.

Ayes 4; nays 2.

Mr. Mackenzie: At this point we indicate we have issued a dissent.

Mr. Chairman: You have issued a dissent, and I have just seen a copy of it.

Mr. Haggerty: Just on that point, under the dissenting opinion, that is a resolution that was carried in the Legislature. I think that was carried unanimously by all parties. Why duplicate it now?

Mr. Mackenzie: We want our dissent attached to the report.

Mr. Cordiano: You have the right to write whatever you want.

Mr. Mackenzie: We have that right. You know that from all the years you have been here.

Mr. Chairman: Mr. Mackenzie, are you just informing us as a point of information that you have a dissenting opinion? Is that correct?

Mr. Warner: That is right, and it should be attached to the report.

Mr. Chairman: Are you moving that it be attached to the report?

Mr. Warner: Of course.

Mr. Mackenzie: Very definitely. That is the normal procedure when you have issued a dissent.

Mr. Chairman: It is my understanding the committee would have to agree to that.

Mr. Mackenzie: No. If it does, it is the first time I have heard it challenged.

Mr. Warner: It is the normal procedure.

Mr. Chairman: Is there any opposition to attaching it?

Mr. Taylor: Mr. Chairman, in a technical sense the consent may be necessary, but in practice it never has been sought, and I would agree.

Mr. Chsirman: We have a consensus then that it be attached to the report?

Agreed to. .

Mr. Chairman: So be it. It will be attached to the report.

Mr. Haggerty moves that I present the report, with the dissent attached, to the House this afternoon.

Motion agreed to.

1010

Mr. Chairman: We are now moving back to discussions of the provincial economy with a view to assisting the Treasury in the budget that is being prepared, hopefully to be brought down approximately in the month of May. If there is anyone who does not have with him or has misplaced the economic and fiscal review the Treasury went over with us in some detail earlier, I have copies right here.

The witness we have with us this morning, Mr. Carmichael, will be addressing that document, as I understand it. He will also be addressing exhibit 26, which members of the committee received on January 22, entitled New Stresses on Confederation: Diverging Regional Economies, of which Mr. Carmichael is the authority.

C. D. HOWE INSTITUTE

Mr. Carmichael: I am quite pleased to be here representing the C. D. Howe Institute and to be contributing to Ontario's prebudget consultation process. The institute has contributed many times in the past, although this is the first time in this particular type of open forum, and we are quite encouraged by this type of opportunity.

Mr. Chairman: I think this is a historical moment because you are the first outside witness. We have had considerable consultation with our own Treasury officials, but you are the first outside witness to come forward in a public forum like this, with the many members of the public who are present today and the reporters and press, to participate in the public drafting of this budget.

Mr. Taylor: Give him a provincial pin.

Mr. Carmichael: My remarks today are going to be based primarily on research conducted at the C. D. Howe Institute and published in the study that was referred to a moment ago, New Stresses on Confederation: Diverging Regional Economies.

This study was released last June and, in our view, it was the first study that really drew national attention to the reasons that the economic recovery in Canada has been concentrated in Ontario and, to a lesser extent, in Quebec and Manitoba, while other provinces in Canada have remained mired in recession. I will give you a few statistics that perhaps update slightly the work that was done in that report last spring.

First, in 1986, 215,000 net new jobs were created in Canada. Of these, 138,000 were created in Ontario and 76,000 were created in the rest of the

country. Ontario, with under 40 per cent of Canada's labour force, created almost 70 per cent of the net new jobs.

Just last month, the unemployment rate in Ontario was 6.6 per cent. In the other nine provinces and two territories, the average unemployment rate was 11.6 per cent, five percentage points higher.

Mr. McFadden: You said 215,000 new jobs in Canada and 138,000 new jobs in Ontario?

Mr. Carmichael: Yes.

Mr. McFadden: Does that come to 70 per cent of 215,000? I am not trying to quibble.

Mr. Carmichael: Just under. It is between two thirds and 70 per cent.

Mr. Chairman: Those figures came to 258,001?

Mr. Carmichael: No. It was 215,000 for Canada as a whole and 138,000 of those in Ontario.

Mr. Chairman: The percentage is?

Mr. Carmichael: Between two thirds and 70 per cent. I would have to have my calculator to give you the exact number.

Mr. Chairman: That is fine.

Mr. Carmichael: Ontario's share of the labour force is under 40 per cent.

Ontario's relatively strong performance has stimulated migration to this province so that the provincial population growth rate is now the highest in the country. Ontario's personal income per capita is now higher than that of any other province. In 1980, both Alberta and British Columbia had surpassed Ontario in personal income per capita, but by 1986, Ontario had opened up a gap of almost 10 per cent in terms of income per head relative to these other two high-income provinces.

Our study examined the causes of the divergence in regional economic performance. To summarize, we found that the single most important factor in the divergence was the drop in natural resource prices that began with the 1981-82 recession. The original decline was followed by only a weak price recovery in 1983-85 and then by the dramatic drops in oil and grain prices in 1986.

0940

If resource-producing industries were spread in equal proportions across the country, boom and bust cycles in commodity markets would have little impact on relative economic performance across regions, but the distribution is not equal. Oil and gas production is concentrated in the west, especially in Alberta. Mining and forest products are more important in BC and the Atlantic than in other regions. Agriculture dominates in Saskatchewan and Prince Edward Island. These resource-producing provinces have been hit hard by the weakness in world commodity markets.

Ontario and Quebec, the home of over 80 per cent of Canadian manufacturing, are primarily resource-consuming provinces and they have, on balance, benefited from the weak commodity prices. I would just note here, however, that even within provinces there is a regional divergence. Obviously, northern Ontario is a resource-producing part of Ontario and has something in common perhaps with some of the other resource-producing regions of the country.

Our analysis clearly indicated that the major cyclical downswing in resource prices has been the major cause of the regional divergence. But we also found evidence that, rather than providing a stabilizing influence, key government policies have actually aggravated differences in regional performance. I will give you three examples:

First, the mix of large budget deficits, that is, at all levels of government in Canada, and anti-inflationary monetary policy throughout the early 1980s led to a situation of high real interest rates and a value of the Canadian dollar that created greater problems for the west and the Atlantic than for central Canada.

Second, our study suggested that federal fiscal policy appears to have provided little countercyclical stimulus to the depressed Atlantic region, yet continued to provide considerable stimulus to the Ontario economy even after economic activity has rebounded strongly in the province.

Third, we found that trade and industrial policies also have favoured Ontario and Quebec. Energy policies hurt the recovery in the west. US protectionism, not a Canadian policy but nevertheless, a trade development, has so far focused on resource products such as fish, lumber and grain. These factors have weakened activity outside central Canada. At the same time, federal and provincial industrial subsidies and restraints on Japanese auto imports have favoured Ontario and Quebec, sometimes at the expense of other regions.

All of these factors have contributed to Ontario's economic strength relative to the rest of the country. The economic divergence has put new stresses on Confederation. These stresses have been evident in recent federal and provincial dealings over energy policy, the lumber countervail case, the CF-18 contract, the grain subsidy, this week's emergency meeting over cod fish and, having listened to the session just before this, one could add, the international banking centres discussion and debate.

I would suggest that, because of its robust economic performance, Ontario, like no other province, is in a position to take on a leadership role in finding ways to reduce the regional economic imbalances in the country. Such leadership would be in Ontario's long-run interest. The downswing of resource prices of 1980 to 1986 will eventually be followed by a renewed upswing.

In the west and Atlantic Canada, there is a strong feeling that government policies shield central Canada when resource prices are high but do not help cushion the impact on resource-producing regions when resource prices are low. If this perception does not change, resource-producing regions will not feel they owe central Canada any favours when resource prices, especially oil prices, rise again.

Mr. Taylor: Is that more than a perception?

Mr. Carmichael: In what sense?

Mr. Taylor: Is it a fact or are you agreeing that it is a perception?

Mr. Carmichael: I am suggesting that the perception is perhaps the most important thing and, from our travel around the country, I think the perception is very widespread outside of central Canada.

Mr. Warner: The perception worked well for four decades.

Mr. Taylor: Look at the economy it built.

Mr. Carmichael: Ontario is in a position to take a leadership role, beginning with its next budget and following through with constructive positions on all federal-provincial economic matters.

I suggest there are three areas of economic policy where Ontario can take the lead: (1) in reducing Ontario's budget deficit and borrowing; (2) in supporting a comprehensive tax reform, which includes reforms of the corporate tax and reforms that build greater flexibility into resource taxation; and (3) by supporting changes in industrial policies that avoid concentrating benefits in central Canada. I will deal with each of these in turn.

First, in the budget deficit: After four years of economic expansion, the federal government and all 10 provincial governments are still running budget deficits. Our analysis at the C. D. Howe Institute suggests that in spite of revenue losses associated with the drop in oil prices and unexpected farm payments associated with the drop in grain prices, the federal government made modest progress in reducing its budget deficit last year. Still the deficit will exceed \$30 billion in the current fiscal year and probably will still be in the \$27 billion to \$30 billion range next year.

The modest improvement in the federal budget balance was almost entirely offset by a deterioration in provincial government deficits in 1986. Alberta experienced a major increase in its deficit, while other provinces made little or no headway in reducing theirs.

The result is that combined federal and provincial governments continue to have borrowing requirements equal to about seven per cent of the gross national product, and the public debt continues to grow faster than the GNP. Canada is enormously more vulnerable today to an international recession or a disruption in financial markets that pushes up interest rates than it was at the beginning of the 1980s.

In such an event, governments in Canada would have virtually no room to manoeuvre to cushion the impact on Canadians. Furthermore, continuing large government borrowing requirements can no longer be financed by savings generated in Canada. Increasingly, our borrowing requirements must be met by borrowing from foreigners. Canada's international indebtedness is on the rise. The move to capital account surplus pushes the Canadian dollar higher and the merchandise trade surplus declines as it has in the past year.

This foreign borrowing would be reasonably healthy if the proceeds were being used for new productive investment that would yield income to service the foreign debt, but it is not. Rather, the proceeds are used to finance public and private consumption and, for this reason, Canadians are creating a debt burden today that current and future generations of Canadian will have to bear.

Ontario, with an unemployment rate of 6.6 per cent, still has a budget deficit of almost \$1.5 billion. If any government in Canada is within striking distance of putting an end to its borrowing, it is Ontario. In the past year, Ontario's tax revenues have unexpectedly run above target. Most of the windfall has been spent. This does not contribute to regional balance in Canada. Reducing Ontario's borrowing requirements would make a contribution.

The second area is tax reform. The federal government will introduce a comprehensive tax reform proposal this spring. Measures that could aid regional balance would include, first, a reform of the corporate income tax that broadens the tax base by reducing existing write-offs and lowers corporate tax rates and, second, a reform of resource taxation to reduce the burden on resource-producing regions when resource prices decline dramatically.

Corporate tax reform in Canada, like that in the United States, will focus on broadening the corporate tax base and lowering rates. This will mean that some of the provisions of the current system, such as the special accelerated depreciation for manufacturing assets and perhaps the lower corporate tax rates for manufacturing, may be eliminated or reduced. The proceeds of such a reduction or elimination would be given back to corporations in the form of lower tax rates.

Such a reform should make Canada's corporate tax rates competitive with rates in the United States and, at the same time, level the playing field between manufacturing and nonmanufacturing activities. This, because of the distribution of manufacturing across the country, would contribute to better regional balance.

Resource taxes also need to be made more flexible so that royalties and other fixed levies automatically move up or down with the price of the resource. This has not been a feature of resource taxation in the past but needs to be considered carefully in the future. Such a change would not only contribute to better balanced economic development across provinces, it would also create better balance within provinces. Northern Ontario could benefit from such a reform.

Finally, Ontario should take a national perspective in promoting more regionally balanced industrial policies. In the early 1980s, Canadian industrial policies were tilted to the disadvantage of the regions outside central Canada. Policies towards the energy sector, towards the auto sector and towards the manufacturing sector in general have tended to concentrate the benefits in central Canada, especially Ontario, and the costs in the other provinces.

Moves by Ontario to promote the phase-out of so-called voluntary restraints on Japanese auto exports, to find federal-provincial solutions to Canada's energy security concerns for the 1990s and to limit government bailouts and subsidies to central Canadian businesses would not only bring greater regional balance to the Canadian economy in the near term, they would also increase the likelihood of improved interprovincial co-operation when resource prices rise again in the future. In so doing, Ontario would make a significant contribution to strengthening the Canadian federation and thereby brighten its own longer-term economic prospects.

Mr. Chairman: Before we get into questions, can we have a copy of your statement for distribution? I know we have the transcript. It was very well done.

Mr. Warner: I have a couple of questions.

First, I know it is nice to quote statistics about unemployment rates. No doubt you are aware that those rates are predominantly in the urban centres, usually Toronto, Hamilton and Ottawa, and that unemployment in northern Ontario is double that rate. When we talk about industrial policies, for example, again, the north and the east of Ontario are basically left out of the industrial policies that are helpful to build a base for those regions.

I assume the Legislature is aware that when we discuss budgeting or tax matters or industrial development, essentially it has been southern Ontario and more particularly the so-called Golden Horseshoe that has benefited. The thrust of your remarks is that Ontario has a role to play in strengthening Confederation. I would come back to my basic premise that the main beneficiaries of Confederation over 100 years have been Montreal and Toronto. Those are the main beneficiaries, to the exclusion of especially northern Ontario but of other parts of the countries as well. I think that is a more realistic approach in terms of trying to set policy.

I have two questions I want to ask you. One was on the budget deficit you mentioned, which for Ontario is \$1.5 billion.

Mr. Carmichael: A little less now, in the most recent report.

Mr. Warner: Do you have any information about whether the bulk of that is connected with Ontario Hydro? Is it the main culprit in terms of creating that deficit?

Mr. Carmichael: No, I do not believe so. I believe it is treated separately in the books as a crown corporation and it would not be contributing at all to Ontario's fiscal deficit. That would be my understanding. Please correct me if I am wrong.

Mr. Warner: You are the expert in economic affairs, not me, but I got the general impression that the government's borrowing capacity is affected by the debt run up by Ontario Hydro.

Mr. Carmichael: Yes, that is true. The Ontario government does back Ontario Hydro borrowing. Ontario's credit rating is excellent. Ontario is in the strongest fiscal position of any province in the country. The issue at hand is not really whether Ontario, because of its deficit and because of its borrowing requirements, is hurting its own long-run interests.

The point I was trying to make was that economists have for many years recognized that budget deficits are quite appropriate in times when economic activity is low and the economy is in a state of recession. At the same time, there has been a sense that over the business cycle, and one can define that in a long sense, budget deficits that take place during recessions ought to be offset to some degree by moving back towards budget balance or even surplus in the good times.

In Canada, we are into our fifth year of expansion and we still have 11 governments, 10 provinces and the federal government, running budget deficits. As I said, Ontario is the province that has the best economic performance and if there is any jurisdiction within Canada that should be able to get back to a balanced position, it is Ontario.

My point is not so much that Ontario needs to do this to strengthen its

fiscal integrity, which is already strong, quite apart from the borrowing being done by Ontario Hydro, but that it could make a contribution to the fiscal stability of the country as a whole and to regional economic balance within the country by making this kind of move. It would be, in my view, a relatively painless thing for Ontario to do, in that revenues continue to come in.

In previous consultations that our institute has had with Treasurers prior to Ontario budgets, we have consistently suggested that Ontario tends to underestimate the growth of revenues. That has now been going on for several years and it has certainly come true again this year. Whenever I see a quarterly report come out of Treasury, I look to see how much revenues have run, what was projected in the previous budget and then what happened to them. Usually, about 80 per cent of them are spent on new projects.

Many of these projects are probably worth while and I recognize that Ontario was the first province in the mid-1970s to get into fiscal restraint when there was a concern about the provincial budgetary deficit and it is now in a strong fiscal position because it was concerned back in the mid-1970s. So that justifies to some extent some increased spending if there has been a holding back or a restraint that has been going on for 10 years. At the same time, I would suggest that more of the new revenues that are flowing in in Ontario ought to be used to reduce the borrowing requirements of the province and somewhat less in terms of finding new expenditure activity.

Mr. Warner: A cynical person might say that the consistent underestimating of revenues is for political purposes and not financial accounting difficulties, but rather that it allows the government of the day the opportunity to suddenly announce new programs, because it has this new-found wealth and also because it is extremely prudent in the way in which it manages its economic affairs. Only a cynic would say that.

Mr. Taylor: It is just bad forecasting.

Mr. Warner: My final question is on the term "new jobs." I confess this is something that has always bothered me. You mention there are 215,000 new jobs. Is that a net figure, i.e. it takes into account jobs lost through either retirement or shutdowns, etc.?

1040

Mr. Carmichael: Yes. It is a net figure. In fact, in recent years a good year has involved job creation in the 200,000 to 300,000 range. That is a net increase in employment from one year to the next. However, the labour market in Canada is actually a very dynamic and mobile institution. There are millions of jobs created in Canada every year and there are hundreds of thousands of jobs that are lost every year.

People are constantly moving in and out of jobs; so what this figure measures is the net effect of people who have jobs for the first time, other people who are retiring, people who have lost jobs during the course of the year and others who have found them. It is a net figure.

Mr. Warner: Why does not the employment rate go down? You have a new net figure and it is a plus, as this one is, but the unemployment rate remains extremely high. Why?

Mr. Carmichael: It is because the labour force also grows every

year. We are nearing the tail-end of the baby boom, in terms of those people entering the job market, but in the past year we had 215,000 jobs created and the labour force grew by just under 200,000. That is the main reason. If we were to get the unemployment rate down, we would need significantly faster job creation, particularly outside of Ontario.

Mr. Warner: Okay. Thank you.

Mr. McFadden: I found your presentation really interesting because most people who make presentations tend to be fairly narrow in focus and I find it interesting to look at budget planning in the Canadian context.

One of the things I discussed with the chief economist for Ontario when he was here a couple of months ago, and we have talked about it once or twice since then, was the remarkable way in which the prosperity of southern Ontario has been helped along, to some extent, and is being underpinned by problems created in the rest of the country.

One of these that was quite noticeable in the economic forecast from the chief economist, which I guess you have seen, is that a lot of the prosperity in Ontario, as you have already cited, is enhanced by low natural resource prices, which clearly hurt northern Ontario, the west and to some extent even the maritime provinces.

Has this particular situation been endemic to the Canadian economy since Confederation or do you feel this phenomenon is a recent one and is likely to create some new stresses on Confederation?

Mr. Carmichael: No. I think it has been a problem since before Confederation. I do not think, though, most economic studies in the 1950s, 1960s and 1970s on regional economic disparity in Canada have focused enough on the role of the long swings in commodity prices that have taken place.

They have looked more for institutional and other types of causes of regional disparity and have not looked at what seems to me, in retrospect, to be the obvious cause; that is, the ups and downs of the commodity markets and the uneven distribution of manufacturing, in particular, across the country.

I think the resource-producing provinces, while many of them are making attempts to diversify their economies, are still well advised to continue to focus much of their attention on producing resources. That is where their comparative advantage lies and that is why provinces like Alberta could move to such a high income level when the price of oil, for example, went up. It is an efficient producer of oil and natural gas.

At the same time, our industrial, tax and trade policies do not, at the present time--this is both federal and provincial--recognize fully enough the implications of these ups and downs for the regional divergences in economic performance that we have. Therefore, we do not have enough flexibility built into these policies. There is a tendency, perhaps because of the fact that the majority of the population lives in central Canada, for central Canada to benefit from the industrial policies. But also, it seems to us, the tax policies have been too inflexible to provide enough of a cushion for the resource-producing provinces or the resource-producing parts of Ontario or whatever the case may be, the resource-producing sectors, when the prices turn down.

I think it has been a long-standing feature of the Canadian economy, one

that has not been sufficiently appreciated, one that is susceptible to design of better tax laws and better industrial policies being diminished. The federal government is responsible for many of these policies and the federal government's policies came in for some criticism in this report. It seems to me that unless the provinces themselves are prepared to recognize that these ups and downs take place and that it is best, over the longer term, to co-operate and smooth out the regional differences by adopting constructive policies, unless that agreement is reached, federal policies will not change and provincial attitudes will not change.

Now seems to me to be a time, when Ontario is doing as well as it is--I believe it will continue to do well in the next year or two--that Ontario could at least be exploring some avenues. I would also say that when oil prices were high, although the bumper stickers in Alberta said, "Let those eastern bastards freeze in the dark," the reality was that the price of oil was kept significantly lower than the world price. The Alberta Heritage Fund lent money to many other provinces at less than market rates. There was a recognition in the west in the 1970s that the wealth that was being transferred there had to be rechannelled back to other parts of the country to some extent, although it may not have been as much as some people would have liked.

Ontario is now in a somewhat similar situation to the position of the west in the late 1970s and some recognition by Ontario of that situation and some positive moves towards the other provinces, it seems to me, would be a very beneficial thing for the whole country.

Mr. McFadden: I have two other areas I want to discuss very specifically with you. One is the regional development programs the federal government has had in place over the years. Billions of dollars have gone from various programs of the Department of Regional Economic Expansion and the Department of Regional Industrial Expansion throughout the years into Quebec, the maritime provinces and, to some extent, northern Ontario and parts of the west.

I have read a number of different reports that indicate the billions of dollars that got focused on those programs have been of marginal benefit, in total, to those areas. You are suggesting that perhaps we should be looking more closely at other ways of dealing with it rather than giving handouts, grants and other things to specific enterprises. I am curious to hear your view on the various regional development programs.

Mr. Carmichael: Our feeling has been that if governments have large budget deficits they are trying to reduce, this is an area where they should look to reduce their budget deficits, because policies that have been in place for 25 years and which have been based on explanations of differences in regional performance that relate to these institutional and other factors rather than the ups and downs of commodity prices have generated solutions that have not really succeeded in eliminating or significantly reducing the regional disparities that exist across the country.

In many cases, just as your discussion about international banking centres this morning suggested, some of the regional policies actually work against the efficient working of the Canadian economy, and for that reason I think they do harm both to the country and often to the regions that appear to be the direct beneficiaries. It seems to me that a better approach is the type of approach I have suggested, one that would build more flexible tax policies and would review all of the industrial policies, some of which do not have a

direct regional connotation when they are set up but have very large regional impacts, and try to move away from policies that shift wealth from one part of the country to another.

I do not think those policies have been very effective. There are some new theories about how they can be made more effective, but on the basis of our current knowledge, it would be better to scale back and look to other areas of policy to build more flexibility and regional balance.

1050

Mr. McFadden: The final area I want to talk about is this worry about US protectionism.

I had a meeting last week with a number of lumber manufacturers in northern Ontario. They said they are in the remarkable position of having had free trade for 50 years. They are also in a situation where more than two thirds of their product is exported to the United States. Now suddenly they have gone into a new regime where they do not really have free trade any longer. Other people in northern Ontario--I have talked to the pulp and paper people--are worried in the same way. They need some form of access to their market. I gather more than two thirds of pulp and paper newsprint is also exported to the United States.

I am curious to get your reaction to the need for some form of new trade arrangement with the United States, to find some way to level out or stop the rise of protectionism, at least as it relates to Canada. It seems to me that so far the group that is most adversely affected by US protectionism and could potentially benefit the most from some sort of removal of all this countervail would be the other regions of Canada particularly. If you take a look at the percentage of exports, a lot of the resource sector is in the United States. Here again, Ontario's support for developing an accord with the United States would be very helpful from the point of view of northern Ontario and the rest of Canada. They need access to the Americans to survive economically. They do not have a lot of other options.

I am curious to get your view on this whole area of US protectionism.

Mr. Carmichael: I am in general agreement with everything you have just said. I would add that the protectionism coming from the United States is clearly not the old style protectionism of straightforward tariffs and quotas, but comes through the form of aggressive application of the US fair trade laws, the countervailing duties, the antidumping and the safeguard protection.

Until now, those laws and their application have tended to be focused on resource-producing industries in Canada. However, our sense is that there is a great deal of demonstration effect going on in the United States, a great deal of learning by other industry groups on the basis of cases like the lumber case that could very well lead to a spread of this type of aggressive application of US trade laws out of the natural resource industries and into manufacturing. There are some early indications that is already happening.

One case, albeit a relatively small one, is an antidumping case against the Mitsubishi corporation operating here in Ontario. That was an interesting case in that the real complaint is against imports coming into the United States from Japan and Korea. In putting together its antidumping case, an electronics union in the United States felt it could bring Canadian imports in as well. There is one manufacturing area.

There is obviously a good deal of pressure on the US side to have someone launch a countervailing duty case against the duty remission scheme in the automobile sector, which has been instrumental in encouraging Japanese firms, Koreans and others to set up manufacturing of automobiles and parts in Canada.

It is our sense that the demonstration that has taken place in the resource sector is a very powerful one and is not necessarily limited to resource products. It will spread into other areas of trade unless we have some kind of trade agreement or unless by some magic the US trade deficit disappears. We do not see that happening over the next couple of years.

Our feeling is that Ontario would not only make friends in other parts of the country by getting behind a deal that would come to some agreement on the application of US trade laws that Canadians could live with, but it would also be protecting its own future interests in a number of very important manufacturing industries in Ontario.

Mr. McFadden: One final question on the auto pact. I get the impression that there is some risk to the auto pact right now in the United States. I understand the United Auto Workers have commenced some back-room lobbying to have the whole auto pact abrogated, partly because they feel they have no stake in Canada anyway at this time. Have you heard anything about that or do you have any information in connection with any risk there might be to the auto pact in terms of your work in the United States?

Mr. Carmichael: I do not know anything that the UAW might be doing. I do know, as I am sure you do, that there has been very active lobbying by some state governments, including the government of Michigan. I am not sure all this would necessarily lead to an abrogation of the auto pact. There is still an awful lot of very powerful support for the auto pact in the United States.

It seems to me that the US pressures are not so much to get rid of the auto pact altogether, but to get Canada to reduce the use of its duty remission scheme, either by freezing it or eliminating it altogether, but that would be difficult because the Canadian government has agreements with a number of firms. It would be very difficult to pull the rug out on those at this point. The duty remission is one sore point.

There are many US automakers and parts producers who would like to see the auto pact extended rather than abrogated, extended to all auto producers and parts producers in North America--in other words, to bring the Japanese, Koreans and others into the auto pact. The pressures may very well be not to eliminate the auto pact but to eliminate some Canadian practices and broaden the auto pact.

Mr. McFadden: A select committee of our Legislature has recommended that, as you may know. I guess you could say we are on record as favouring that.

Mr. Chairman: I have a supplementary question. You indicated that the offshore producers of automobiles who have voluntarily restrained their importation into Canada should be relieved of that restraint; yet at the same time, you indicated that restraint has economically benefited Ontario. I take it the reason you have suggested that as part of our gesture to the rest of Canada is that while this is something that benefits us, it economically harms the consumers in the rest of the country.

Mr. Carmichael: Yes.

Mr. Chairman: But it would harm us if we simply took off those restraints, would it not?

Mr. Carmichael: We should go back to when they were initially imposed. This began with the United States negotiating the voluntary export restraint agreement with the Japanese in 1982. There was a great deal of legitimate concern that once the United States negotiated such an agreement, the Japanese would have extra automobiles which they would try to sell to other markets if there were no similar agreements in other countries. Canada was quite concerned that there would be a flood of Japanese auto imports into Canada at a time when car sales were falling anyway and the North American producers located in Canada were cutting back. There were a lot of layoffs in the industry and what have you.

The restraint gave Ontario and the Canadian automobile industry a breathing space in which to do some investment. It did an awful lot of investment. It rebuilt its employment and it improved its productivity. Since that time, the United States has eliminated its voluntary export restraint agreement with Japan, although the Japanese still seem to keep a target level of exports to the United States, not wanting to raise new friction. In Canada, we have continued to negotiate restraints on a year-by-year basis. They have been relaxed, but they continue to be in place.

When the restraints were put in place in the United States and Canada, economic studies of the impact suggested the Japanese voluntary export restraints raised the price of an average automobile by about \$900 or \$1,000 per car. The benefits of these higher prices, in Canada at any rate, flowed primarily to Ontario and to a lesser extent to Quebec. Everyone in the country paid higher automobile prices because of the Japanese voluntary export restraint.

1100

It was perhaps a worthwhile transfer at the time to build up the central Canadian auto industry back to a point of competitive strength, but I think one can argue that has now been accomplished, that the Japanese are themselves concerned about exporting too much to countries that have already demonstrated that they are prepared to put restraints on and that the removal might at this point have very limited effect in terms of auto production, employment, etc., in Ontario. But it would be a gesture and it might perhaps put a small amount of added competition into the auto market that would be to the benefit of consumers across the country.

Mr. Chairman: We have used it as a lever, though, to force the offshore producers to build in this country--

Mr. Carmichael: We have used it as a lever.

Mr. Chairman: --but that lever has been used up, I take it you are saying.

Mr. Carmichael: Yes, and we have also used the duty remission program. The two in combination have been a very powerful incentive to Korean and Japanese firms to locate in Ontario, but the very success of those levers is what is now bringing greater attention to the auto pact and to the duty remission program. I believe the concern on the US side is not that the auto

pact is a bad deal for the United States, but that Canada may be trying to squeeze every ounce of benefit that it possibly can out of the auto pact through the various additional policies that it is using. If that is the case, the Americans are going to exert some pressure back. Some calculation has to be done along the way of what risks we want to take for the longer term and to what extent we have achieved our objectives in terms of encouraging offshore auto investment in Canada. I think we have done very well on that front.

Mr. Ashe: Can I make a query on that last sentence.

Mr. Chairman: Yes, if it supplementary.

Mr. Ashe: Do you really feel--and I know that is the general feeling out there and you expressed it--that we have done very well in making the offshore manufacturers, particularly the Japanese, invest in Canada? Do you not really think we have been led down the pipe to some degree, to the extent that the percentage of it, in other words, the value added that is put in here in most instances is much less and the jobs created are just so much less per unit than in the case of the home-grown automobile? It is not even comparable.

Generally, people have the impression that whether you build an auto plant--and I will use a name just an example--to build Hondas or to build Chevrolets, a plant is a plant and they are all X number of dollars and therefore X number of jobs, but the balance is not even comparable. Do you not think we have been misled about the value of it or the percentage value of it, albeit with some success? Some is better than nothing. There is no doubt about that.

Mr. Carmichael: I would cast this as saying that it demonstrates how beneficial the Canada-US auto pact has been more than it demonstrates that these investments coming from the Asians are not so beneficial. I think the auto pact has, over the 20 or more years of its existence, put Canada on an equal footing with auto-producing firms in the United States by giving them access to the entire North American market. I do not think there is any question that has been a very powerful and positive effect and very beneficial to central Canada.

For the Japanese, however, unless they are prepared to meet the content requirements within the auto pact, 60 per cent Canadian value added, they do not get the same duty-free access out of Canada into the United States. In 1978, Volkswagen had a deal set up whereby it could send automobiles in and out of Canada and the United States without fear of countervail. It would get duty remission, etc. That kind of deal probably is not going to be available from the United States at this stage because of concerns over the existing workings of the auto pact.

From a Canadian point of view, the almost \$1 billion in Japanese auto investment that has come in the last year is almost equal to the total of all Japanese investment that has come into this country since the war. It is an incredible breakthrough that has been made, and we have done it by using these levers. It has not gone unnoticed outside the country that we are using levers that other countries are not using to bring this in. Primarily the United States for one is concerned that we do not continue to do that. As I was saying, I think a calculation has to be made about whether the benefit of trying to attract one more plant is worth the risk of the possible repercussions for the auto pact and the duty remission scheme that we have in place.

Mr. Taylor: You mentioned your concern in regard to the budgetary deficits of all 10 provinces and the federal government. You made the proposition that in better times one should strive towards reducing that deficit which one might have to increase during poorer times. Because of the percentage of gross national product that is taken up in servicing debt, Canada is ill poised to address a severe recession should that occur. What is your perception of the possibility of that eventuality?

Mr. Carmichael: You mean a severe recession?

I did not bring along with me a copy of our policy review and outlook that came out last December, but I will send one to all of you. We did address the question of whether the international economy, which is still moving forward at a modest rate, could run into some difficulties. The biggest risk we see is that one government or another will make a mistake in trying to deal with the huge US trade deficit.

What has been happening in the first part of this year is that because the Japanese and Europeans have not generated significant enough growth in their economies to help bring down the US trade deficit, the United States has felt prepared to allow the US dollar to continue to fall, and it has fallen quite dramatically in January and into early February. That has been part of the reason the Canadian dollar has been strong. But the concern about all of this is that the US remains a huge international borrower and is borrowing from the Japanese, from the Koreans, from the Europeans and even from Canada. We tend to lend to the United States.

Foreigners will continue to lend to the United States as long as they think US economic policy is on a reasonably stable track into the future. One of the reasons I think that they felt more confident about that was because the Gramm-Rudman law was passed and it looked as though the United States was finally going to get a handle on its budgetary deficit.

The budgetary deficit actually hit a record in the US last year and it is not at all clear that Gramm-Rudman's teeth are going to be there and that the budget deficit is going to come down this year. With that happening and the US dollar declining, this means foreigners who put their money into the US get an interest rate or a dividend rate of return, but when they go to repatriate their earnings, if the dollar has dropped by 10 per cent or more, they have a foreign exchange loss that more than offsets what they have earned on their money.

I do not know how long people are willing to do that. The concern, internationally, is that if a lack of confidence develops in the US ability to bring down its budget deficit and manage its affairs better, people are going to quit investing in the US. The US has to finance its budget deficit, so it has to continue to try to borrow abroad. If that happens, interest rates in the US could rise to keep capital flowing into the US. If that happens, all the interest-sensitive parts of the US economy, the Canadian economy and other economies will be hurt.

This is the scenario that we have put a small probability on, but one that we think has to be taken seriously, partly because disagreements between governments can lead to policy mistakes and to tensions and frictions that lead to policies that are not constructive. If that happens, that is what shakes confidence. That is what could push interest rates up again, could spark a new recession and could leave Canada, along with a lot of other countries, in a very difficult situation and governments not in a position to

ease the effects on people who became unemployed or whatever the case might be.

1110

Mr. Chairman: We have one other witness and we are past 11 o'clock. Do you have any supplementaries, Mr. Taylor?

Mr. Taylor: Not on that point. I was simply going to address the transfer payments on a Canada-wide basis and touch on the geographic and economic reasons for concentration on certain parts of the country. Maybe we are into another area there. I was going to ask that because of the regionalism within Ontario. Comparatively speaking, statistically, Ontario is looked upon as one, but as has already been pointed out, it is regionalized.

There are quite dramatic differences in terms of economic opportunity and employment in different parts of the provinces, as there are in different provinces of the country. I was wondering to what extent that could be addressed by transfer payments and to what degree in a practical and economic sense in terms of the marketplace that could be addressed by government policy. I thought that may be pertinent in dealing with the international banking centres and the market determining the status of those.

Mr. Chairman: I think that is appropriate in view of the main tenor of your presentation.

Mr. Carmichael: I would say that a reform of taxes and transfer programs of the type I was trying to suggest in my remarks would be beneficial. The present set of transfer programs that we have in Canada between governments--that is, transfers from the federal government to the provinces agreed to under federal-provincial agreements of various types--do not at present contribute very much to regional balance. I am not so sure they aggravate regional imbalance, but they do not contribute very much to regional balance. There are two reasons for that.

One is that the biggest chunk of transfers relates to health and education, and those programs are determined more by the population in particular provinces than by the level of economic activity at any particular time. They are not terribly sensitive or sensitive at all to changes in commodity prices. In fact, if anything, because of the interprovincial migration to Ontario, Ontario will be getting a bigger chunk of those transfers than it would otherwise have, based on the population growth in Ontario. Given the objectives of those programs, that is probably quite appropriate.

The other major type of transfer that one could consider is the equalization program, which is not as big. It does not contribute in a very timely way to regional balance because of the formula by which it is calculated. A province's equalization payments are based on a three-year moving average of its revenues from various sources. Even long after the price of oil turns down in Alberta, the strong resource revenues of Alberta in 1984 and 1985 will continue to mean that Alberta will not qualify for quite some time nor be in a position to receive some equalization payments. It is more of a timing problem on the equalization side of things.

I am not as familiar with the transfers from the provincial to the municipal level. I am not so sure there is all that much scope there. I always tend to come back to building more flexibility into the tax system as the primary way of addressing this problem, although studying transfers is also a useful option.

Mr. Chairman: Thank you very much for your presentation. It was very useful and thought-provoking. I am sure it will play a part in our deliberations and, who knows, maybe in the budget eventually.

We have now George Radwanski who appeared earlier in front of the committee on the international banking question. Mr. Radwanski is the author of Ontario Study of the Service Sector, which was released not that long ago. He has spent some time looking at this province, and we thought it would be appropriate if we invited him to indicate to us what he thinks we should be doing right now.

I understand you have some notes that we could utilize after you finish your presentation?

GEORGE RADWANSKI

Mr. Radwanski: I think that may have been a misunderstanding. The reference was whether I had a copy of the report, and I do. I do not know whether members of the committee have had a chance to see the report or not.

Mr. Chairman: Yes, we have.

Mr. Radwanski: Perhaps what I might most usefully do is to give a very brief overview of some of the main themes of it and then focus on whatever is of most interest today.

The original purpose of the study that I worked on for a little over a year was to examine the service sector in Ontario, broadly defined to encompass everything except manufacturing and the primary industries.

The conclusion I came to relatively early in the work was that the most important realization in this area was one of how fundamentally our whole economy has changed. I came to the conclusion that it is a change as fundamental as the earlier transition from an agrarian to an industrial society in the sense that now, as you know, 73 per cent of employment in Ontario and 70 per cent of gross domestic product is in the service sector. The service sector absorbed 85 per cent of all labour force growth between 1941 and 1981. By conservative estimates, it will account for about 80 per cent of all new jobs created over the next decade.

This growth over all these years has not been in what tends to get characterized as a service economy. One reads about the McDonald's economy, that we are switching to an economy of fast-food outlets, barber shops and so on. That is a myth and a mischaracterization. By far the greatest growth has been in sophisticated services such as financial industries, insurance, real estate, the broad category of activities known as services to business management, health care and education.

Between 1941 and 1981, employment in what I would call these sophisticated services grew by more than 700 per cent, while the services that people generally tend to think of first when they think of the service economy, that is, mainly consumer services, grew by only 170 per cent.

In terms of what we should be doing, it is important to understand first that there is no single great service sector problem as such. It is not a matter of two or three things that desperately need to be done right now and all will be well. More fundamentally, in the first instance it is a matter of perception, of recognizing that we are in a very different economy to the one we tended to think we are in and still tend to think we are in.

To give one example of this lag in perception, there are now more Ontarians employed in hospitals, 162,112--just hospitals, I am saying, not the whole health care field--than there are in the whole auto manufacturing and auto parts industries combined, which is 92,584. That is 162,000 to 92,000 in hospitals versus the auto industry. Similarly, there are more Ontarians employed in universities and colleges, 64,159, than in all our iron and steel mills, which is only 38,376. These are figures for the end of 1985, by the way.

When we talk of job creation, we still tend to think that if we throw X million dollars to the auto industry to attract a car plant or what have you, we still tend to think of that as job creation, whereas if we spend a comparable amount on expanding hospitals, on universities or what have you, we agree it is useful, that it may be socially desirable or what have you, but that is somehow seen as soft spending, something other than job creation and something other than addressing needs in the economy. That is a kind of perceptual lag.

1120

Mr. Chairman: I wonder if I can interrupt you there for a moment. If you create a job in manufacturing, would it not be fair to suggest you are likely to create a service job as well or at least part of a service job or more than one service job, whereas it does not necessarily follow the other way around? A steelworker needs a hospital and a university now and then. Is that fair?

Mr. Ashe: To build a hospital, you need the steel.

Mr. Radwanski: Exactly. I think it does work both ways. One of the things we found was only about 30 per cent of the output of intermediate services is an input into manufacturing. The rest goes to other services; so you can see right there how that link is not entirely clear. Yes, it does work the other way very much. For instance, if you create a hospital, you will not only need to build the hospital with all the iron and steel involved, you also will need hospital equipment. There is a whole range of infrastructure activity that sets in there.

Mr. Taylor: Does not the spending on health care and education contribute more to the provincial and national debts than spending in the manufacturing industry? It is okay to make jobs, and I appreciate that, but I suppose it is a question of whether you are creating wealth.

Mr. Radwanski: I think that is a very fair question.

Mr. Chairman: I do not want to divert you.

Mr. Radwanski: No. I can perhaps best address that by going on to the next point I was going to make, if you will bear with me. If I have not answered your question by doing that, please come back to ask me about it because I think the point you are raising is a vital one.

Out of this kind of analysis of the importance of the service sector, I identified four broad policy themes that I think are worth bearing in mind in the formulation of future policy. I will run through them once and then come back to each. The four themes are the vital role of education, the importance of entrepreneurship, the need for social services and the virtually limitless export potential in services.

To come back to each of them briefly in terms of the vital role of education, one of the most important characteristics of the kind of new economy that we are in, and increasingly will be in, is its knowledge intensiveness. Some people talk of the information economy, the knowledge economy or what have you as an alternative phraseology for the service economy.

The fact is that in the manufacturing sector and in the service sector our competitiveness at one level is going to depend increasingly on a highly skilled, knowledgeable and flexible general work force, and at another level, on world-class expertise and leadership capacity among the top people in the various fields in which we want to be competitive. That is a vital thing to bear in mind. That makes education policy and ensuring that we have that kind of labour force perhaps the single most important thing we can do to be competitive.

The second theme is the importance of entrepreneurship. I will not rattle off all the figures now; they are in the report. It is clear that by far the greatest growth in the economy in terms of job creation and new economic activity has been in the small business sector and, above all, in the startup of new small businesses rather than the expansion of existing ones, and the bulk of that activity has been in the service sector. Again, that leads to the desirability of policies of support for small business activity.

A third area is the need for social services, which, along with education, comes back to the question you were raising, Mr. Taylor, in this sense. If, as I believe is the case, a key characteristic of our new economy is that it is (a) knowledge-intensive and (b) people-intensive, in the sense that the human element in a service economy is really very key, then nurturing that human element through a whole range of social support services, social policies in the sense in which we now see them, health care and areas like that really becomes an important instrument of competitiveness. We can come back to that later if you like.

The fourth theme is the limitless export potential of services. World trade in services is now growing at or somewhere very close to the same rate as trade in goods. There are some experts out there who believe that eventually trade and services will surpass trade and goods, and certainly I think it is clear that virtually every service imaginable is now exportable in one way or another.

I have some examples. Some types of services, to the degree that they involve knowledge that can now be reduced down to electronically encoded information and transmitted internationally, are readily exportable. Other types of services are exportable, for instance, by franchising, which is really, when one thinks about it, a technique for exporting services more than anything else. If one were to think of a service that by its nature one would think is purely local and nonexportable, something like the corner convenience store would come to mind; yet there are now more than 1,000 7-Eleven local convenience stores in Japan.

Similarly, something like the barber shops, which we always thought of as being purely local services, are now being franchised and expanded internationally, all of which is to say that is another method of exporting. The export of individuals obviously, people travelling to provide a service in another place, is another way, or contained in goods in the forms of books, films, etc.

The point I want to emphasize simply is that we have tended to think of trade and export predominantly in terms of physical goods, and it may well be--in fact, I think it is--that our greatest source of international competitive advantage in global terms in the years ahead can be potentially in the area of services, the export of knowledge-intensive activity and of expertise.

The report in a separate portion deals at some length with trade and services, Canada-US free trade in the service sector. We can also talk about that if there are any questions.

I think the best thing I can do is cut short my remarks at this point and get into whatever areas of questioning you would like.

Mr. Chairman: Mr. Taylor, are you satisfied at this stage?

Mr. Radwanski: I do not think I fully satisfied him.

Mr. Taylor: I did not expect to be fully satisfied. I suppose one would have to look at the particular service expenditure; for example, education.

Your argument, as I understand it, is what you are doing is posturing the skilled population so that it can contribute to an export of service as a marketable commodity. As I see the problem, we have a difficulty matching the skills with the jobs, so that what we have to do is assess on a cost-benefit basis the money that is being invested in education, to determine whether there is a reciprocal benefit flowing from that particular investment.

Mr. Radwanski: I would respond to that point this way. I think there is absolute benefit in investing in education. In my thinking, that strikes me as being almost beyond dispute. Whether we are getting full value for our money in the way we are now approaching education in some respects is a very different question. You are quite right in the point you make about matching skills and jobs.

1130

One of the arguments I did make in the report was that what it is vital for the education system to do, among other things--and obviously there are areas--is to ensure that people who come out of the education system have the basic skills and aptitudes to be flexible and adaptable. Obviously, they must have the basics such as sound reading, comprehension, good communication skills, math skills and all that, but also they must have the vital skills of learning how to think, and I mean that in the very specific sense of how to think analytically, how to solve problems, etc., and learning how to learn--how to assimilate new knowledge, how to adapt to changing circumstances relatively quickly.

If we produce graduates who have those aptitudes, then to the degree that they have to learn new skills--which they will, because the marketplace keeps changing and it is almost impossible to predict what specific skills you are going to need--we will be in much better shape. You can debate whether we are doing that well enough or not, but I think it is really central, certainly to the analysis I have made, that education is a key infrastructure investment in being competitive and having jobs both internally and in being competitive in global markets.

Mr. Taylor: I would say that is pretty well accepted by most people.

Mr. Radwanski: Good.

Mr. Taylor: At least that is my understanding. (Inaudible) Mr. Chairman.

Mr. Chairman: Yes. Good high school in Picton.

Mr. Taylor: The open sesame to Utopia.

Mr. McFadden: Those who are on the select committee on economic affairs will know that I was a great proponent of services and looking at the potential of services. We tend, as a country, to always look at the hard goods and not spend time to look at services. I found your report and the focus given here interesting.

I thought it remarkable--I was not aware of this--that we are into international franchising of barbers. That was my family's trade. My grandfather was a barber and his father before that and all the way through. The only thing I can reflect on is if we had franchising in 1910, I suppose my grandfather would never have come to North America. He would have franchised in Thunder Bay and I might never have been here, which everybody would probably have very happen about it. But you have to think about how things have changed since. Even in barbering now, you do not have--

Mr. Ashe: David carried on the tradition. He became a lawyer and continued to cut people up.

Mr. McFadden: No, it is good for the economy to make everybody well groomed and presentable.

One of the points that has struck me in discussions about the service sector over the years has been the need for us to develop a new definition of the creation of wealth and what is wealth. Historically, we have always identified wealth as being the creation of a commodity, be it grain, be it gold, be it an automobile or whatever it might happen to be.

The thing I think we are coming to an awareness of now is that there is wealth in an idea or in the creation of a concept or the movement of information. That is an area that a lot of people have not got their minds around, and I am not even sure economists have entirely come to grips with exactly what that is.

One of the things that comes to my mind, for example, is Einstein. If you were to quantify what he contributed to the gross national product, it would be negligible, except for the fact that he was president of a university and hired a secretary and there were some direct spinoffs from what books he wrote. But if you analyse the impact--

Mr. Taylor: He had very few readers, though.

Mr. McFadden: Very few readers of whatever books he had, but if you analyse his impact on the 20th century, the spinoffs are almost infinite, in the area of nuclear power and all the spinoffs from all the concepts that he had worked on, even space travel probably.

I guess the difficulty we are having now is to make the conceptual jump into a new type of economy. That also makes it difficult in the budget

process, because in that area you have to make some new judgements in terms of where you put your money and what the ultimate spinoffs will be.

One thing you raised, and I would like to ask you about this, was the number of people who are employed in hospitals versus the auto sector--I have used that figure, by the way, in a couple of speeches I have given--and the hospitals versus the steel industry and so on. It strikes me, though, that you can look at the aggregate but there seem to be different qualities of jobs in there.

You might have somebody in a service sector job that does create a lot of spinoffs and where you could trace a lot of jobs; for example, somebody developing a computer program that makes it possible to do a certain process has a tremendous spinoff from what that person may be doing. There are other service sector jobs that are at a lower level of economic activity. Sweeping the floor, let us say, or a part-time person in McDonald's is a different order of service job.

What we may have to do is try to define more closely the service sector, because it seems to me there is so much lumped into it now--85 per cent of the jobs are created in the service sector, but an awful lot of those are fairly marginal; a certain part of them are tremendous in terms of value added and what they contribute to wealth.

I am curious if you have given any thought to how you would more finely define the wealth created in the service sector and the different type of jobs within that sector so we can get a better idea of the spinoffs from different service sector kinds of employment. I hope I am not too obtuse--

Mr. Radwanski: No. I think you are bang on with the various points you are raising. My only hesitation is that it raises an awful lot of ground for me to try to cover in a short response.

Let me come back to the first set of points you were making about the conceptual issue. I think you are just bang on there in the sense that there is still very much a bias out there in the community at large on the part of economic policymakers that if you cannot drop it on your foot, if it is not tangible and physical, it is not somehow as real in economic terms or as real a source of wealth.

I have spent a lot of time looking at that early in the course of this work and I simply have not been able to find any economic or conceptual substantiation for that. In the simplest sense, even the most conservative economist would say a buck is a buck, a dollar's worth of economic activity that is generated is a dollar's worth of economic activity and you cannot say a service dollar is somehow better or worse than a manufacturing dollar; so in that sense, I have trouble.

In another sense, I am also reminded that these things are almost natural in a transition of the kind we are in. Back in the period of transition from an agrarian to industrial economy, there was a school of thought, the physiocrats, who argued quite vigorously that if it did not come from the ground, if it was not organically grown, it was not a real source of wealth; the rest was somehow artificial. Those perceptions do lag.

Another element to work into that particular argument about the merit or the reality of manufacturing wealth versus service wealth is this. If we decided, let us say all of us collectively, that manufacturing is somehow

preferable to services or that we should employ people predominantly in manufacturing rather than in the service sector, there really, in real life, is not a thing in the world we could do to make that happen. The trend is towards a predominantly service economy, in which manufacturing will remain important as a source of output but certainly not of employment and in which in global terms we have no particular great advantage in the mass production of goods. Those are the realities, and to some degree the debate about whether services are desirable or less desirable is a waste of energy. We are there, and the question becomes, how do we deal with it?

To deal with the second part, the hierarchy of values of services, as it were, you have to approach it from several points of view. In one way, you almost have to distinguish first between wealth creation in the sense I think you are using it and employment in another. One of the realities of the world we now live in is that employment is no longer exclusively, and maybe not even primarily, approached as an economic necessity in terms of what it contributes to production as much as a social and political necessity in the sense of how people relate to the society they are in. People feel they need a job (a) as a means of income distribution or redistribution and (b) as a form of anchoring themselves in society and defining what they do and so forth.

I am getting a little abstract here myself, but what I am saying is that the economic statistics indicate quite clearly that we can produce all the goods and possibly all the services we need or can consume, employing far fewer than everybody in our economy. Which is to say that to some degree, one cannot just look at jobs and say, "How many bucks does this produce?" It may be important simply because it keeps someone involved in the economy who otherwise would not be. That is part of the answer.

1140

There is another part of the answer. When you look at the low-order jobs, whether they be floor sweeping or dishing out hamburgers at a fast-food outlet, I am inclined to think those jobs are increasingly disappearing anyway or will disappear. We are only beginning to see the inroads of automation and new technology into the service sector; it is nowhere near the order of magnitude it has been in manufacturing, but it will be.

If you look at most of what I guess one would call, for want of a better term, low-order service jobs, the unsophisticated, unskilled ones, there are very few of those that could not be done now by a machine, by technology. Look at a McDonald's fast-food outlet, for instance. If you think your way through that whole process, there is not a step of it that could not be robotized and automated, so you could walk in, push the right buttons, insert your money, and you would not need all those kids running around. I am not saying it will happen tomorrow, but eventually it will.

Which is why we are brought back to the area of education, in that the only real contributions to the economy at some point down the line will be by people who can do something that a machine cannot.

Mr. Taylor: How do you create purchasing power for that big segment of the population?

Mr. Radwanski: Now you are into it. Now you are into--

Mr. Warner: The distribution of wealth.

Mr. Radwanski: You are into the distribution of wealth and, I suspect, something that brings us back to your question about social services, education and so forth. I am talking about what happens, not tomorrow or the day after, but 10 or 20 years down the road. Increasingly, all the commercial goods and services we can consume or hope to export will be producible--if there is such a word--by less and less of our potential labour force. That is on one hand.

On the other hand, we have large and growing unmet social needs, whether they be health care, education, re-education, retraining, day care, care for the elderly or so on. One of our problems in the longer term is going to be redefining work somewhat in the sense that it may not be a nine to five job at a desk or pushing buttons; it may be contributing in one way or another to meeting those needs, whether it be in the volunteer sector, the public sector or the quasi-public sector. Then the issue is going to be how you distribute and redistribute wealth in that kind of world.

That brings us to the tax system and to questions about whether you tax salaries, of which there might be less and less if unemployment were to rise and this kind of phenomenon were to continue, whether you tax consumption, which you may be discouraging, or whether we are going to have to find ways to ensure that employmentless growth in automated manufacturing and automated services is taxed in ways that capture some of that money and get it back into the economy for those other purposes. I do not claim to have the answer as to how you do it, but that is going to be a rather central dilemma.

Mr. Taylor: How do you allocate jobs to people or people to jobs? Are you going to get into government measures that will dictate the type of job activity that someone does?

Mr. Radwanski: No. I certainly would not favour that.

Mr. Taylor: Then you get large distortions so that you do not have the people as interested in doing hospital work, say, as in doing some other type of service job or manufacturing, but the jobs are not there. It is one thing to argue that there will be a transfer of jobs from the manufacturing sector--and there is--to the service sector. You still have that element of the population that is not needed.

Mr. Radwanski: Unemployed.

Mr. Taylor: That is right.

Mr. Chairman: We are getting very philosophical about a lot of these things.

Mr. Radwanski: Let me be clear. I am not advocating some kind of brave new world here. Certainly the last thing I would ever be caught advocating is some kind of arbitrary governmental allocation of people to jobs or anything of that kind. I am trying to respond to the question of where these trends take us in terms of some of the issues that will have to be addressed. I do not know that anyone has come up with very clear answers as to how one responds to those kinds of challenges, if I am right in the belief that those will be the challenges we face, but I think those are some of the things we should be looking at and focusing on quite intensively. I do not know that there is a clear answer.

Mr. Chairman: Any further questions?

Mr. McFadden: I have one brief question. One of the things I have talked to some people about is taxing the production of robots in the same way as we tax the income of individuals. It seems to me that if we are in a situation where a lot of people are displaced by essentially mechanical people in effect, these mechanical people are creating wealth. I am wondering if at some point down the line we would consider taxing the output of robots, since they have displaced individuals. It sounds improbable, but perhaps not entirely in the sense that--

Mr. Taylor: They do not complain.

Mr. McFadden: They do, in their own mechanical fashion.

The problem we get into is that if you just tax the corporate entity, it can bury it everywhere; there are all kinds of other things it can be going into. I question whether any thought might be given to some way of dealing with that. I do not see it being done in the short run, because it might be looked upon as a disincentive from the point of view of Canada to use higher technologies, but it might be something that could be looked at because of the use of automated wealth producers in effectively displacing people.

Mr. Radwanski: The short answer to your question is yes. The longer answer, which is what I tend to give as you may have noticed, is in two parts.

In the first instance, one way to accomplish what you are describing--in fact, I allude to this very point in my report--would be simply to reverse the trend to getting most of our tax revenues from personal individual taxation, consumption taxation and so on. We have been moving away from taxing corporations towards taxing individuals. Even without trying to cherry-pick which corporations are using robots and which are not, a re-evaluation of that shift would be a step in the direction you are describing.

The reason I think it is important--what I allude to in my report--is this. If you take it conceptually to the extreme, and we are nowhere near there yet, you end up with a totally automated plant--with the proverbial fellow to come in and turn off the lights--which produces X widgets, and the owners of it get a profit. If you add into the equation the degree of foreign ownership in our economy and hence the very real possibility that the plant may be foreign-owned in the first place, you then have this entity making a certain level of profit from what it produces, but that is not being distributed through our economy through salaries, because there are no people on the assembly line to pay. It is not being further redistributed in the sense that since there are no people being paid, those people in turn are not paying further income tax or what have you.

To the degree that the company itself is making profits that might be redistributed through dividends or what have you, those may very well be going out of the country to foreign owners, or the profits themselves may be being exported to head office. If one adds into that the tendency not to rely very strongly on corporate taxes or, as you say, a tax on robots, we could really be having economic activity here in one sense that is conferring very little by way of incremental wealth for our economy in the process. That pushes us into evaluating very carefully where we are going with some of the assumptions and priorities in our tax system or we are going to find ourselves in a real jam.

You can see some of that just generally with unemployment, for instance. In periods of recession, or even without recession, if you have structural

unemployment and so on, the more your system relies on collecting money from individuals, if you end up with substantial numbers of individuals who are not making money because they have been displaced, you have a real shortfall in revenue collection. that is a direction we are going to have to look at.

1150

Mr. Warner: He has a hidden agenda. I know what he wants.

Mr. Radwanski: To what have I inadvertently lent my name here?

Mr. Ashe: I will be very brief. I have the same concerns as expressed by Mr. Taylor, but I will give you one more chance to convince me if you have anything else to add.

I accept and buy your argument that a job created away from manufacturing, in the service sector in its broadest sense, is just as important and you should not look at that being the only good job creation. I have no problem with that at all. As a matter of fact, the results of where the jobs are coming from makes that rather obvious.

But I have a hard time buying your idea that a government or quasi-government agency job created has the same long-term positive effect on the system as a private sector job, and I include those in the education system and the health care system as being government or quasi-government in the context that on an ongoing basis--forget the fact that we built the new hospital and therefore had to buy the steel, I buy that part--it is the ongoing costs to the tax system of keeping those government or quasi-government jobs going, compared to presumably the private sector job, whether it is manufacturing or computer expert or whatever, that contributes to the tax system but does not have the same drain from it.

You have not convinced me on that one at all. Maybe you cannot add anything to what you said before and that is fine, but I will give another shot at it.

Mr. Radwanski: I do not know that I will be able to convince you and let me be clear that I am not arguing in any way for a preferability of public sector to private sector jobs or anything of that kind. I guess what I am saying is that a great many of the kind of jobs that have the potential to be created, in the sense of that is where the unmet market need for human activity is, are in areas that, because of their social character, happen to be public or quasi public--health care and education being examples--and also in other areas, for instance, whether it be care for the elderly, day care, what have you, that do not absolutely have to be public sector in the sense of a government body doing it, nor for that matter is all education public sector. There are private schools as well.

There will be an issue of how to channel funds from the rest of the economy into that, whether it is directly by way of the government operating something and using the funds, or whether it will be the government acting as a distribution mechanism by collecting here and monetizing the activity there in some other way, that is a different matter.

I do not know that I have answered your question, because I am not sure it is answerable in any persuasive way if one has certain philosophical preconceptions on the issue.

Mr. Ashe: Which I do.

Mr. Radwanski: Yes. I got that slight impression from the way you phrased the question. The other thing that I think one should be very clear on is, I do not argue that those jobs are in any way preferable, let us say, to a manufacturing job, nor do I argue that we put all our eggs in the service sector basket and not try to maximize opportunities in manufacturing.

What I say is, given the realities of our economy, let us not get ourselves caught in some kind of a mind frame that says, against all the odds, against all the realities, we have to put all our effort into somehow trying to make of the manufacturing portion the source of employment and growth and so on that it alone cannot be. Let us make sure we give sufficient attention and effort to the rest of the economy where, by a force of circumstances I do not think we can reverse, a lot of the opportunities are.

Mr. Ashe: That part I have no problem buying, as I indicated before. My concern is about too much emphasis on government created or financed or quasi-government agency jobs. The fact is we all know right now we need more hospital beds, etc. We need more classroom space, etc. The problem is, as long as the indication is there that there is an unlimited pot, we could create twice as many beds tomorrow and we would fill them. We could create twice as many classrooms tomorrow and we would utilize them in the context that the teachers would say, "The student-teacher ratio will go to one half and that is how we are going to fill the classrooms." That is the problem with government tax-financed operations versus the private sector. You cannot do that. The realities are they have no bottom line.

I buy part of your argument but not the other one.

Mr. Chairman: On the other hand, Mr. Warner.

Mr. Warner: First, I want to make sure this is clear and there is no misunderstanding about what Mr. McFadden wants. He wants those robots to be taxed because the principle is that if you are paying taxes you should vote. It would be really nice if you could create another mindless following.

Mr. McFadden: Motives have been attributed to me that I have never held.

Mr. Chairman: I think you jest.

Mr. Warner: It is totally unjust.

First, I want to thank you for a very thoughtful presentation. The question I have for you is around the budgetary policy that government should be looking at. It should be fairly obvious, as we move into the 1990s and beyond, that employment policy becomes more of a social nature than it is of an economic nature. The notion of full employment really becomes a social policy per se rather than, strictly speaking, an economic policy. You are right. First, from the rural or agricultural aspect, in order to produce the food that is required, we do not need a very large percentage of the population. In fact, a very tiny percentage of the population is all that is required. It was not all that long ago when it was half of the population needed. We are down to less than four per cent and it probably will decline further.

Regarding the manufacture of goods, there again we need a smaller percentage of the population than we needed through the 1940s and 1950s, and

that will decrease. The service sector industry will increase but at some point it will level off, again because of automation and new-found methods and so on.

We can reach that state where it actually is not necessary for every employable person to work 40 hours a week in order to create the goods and services that are required to keep the economy rolling. At that point, your employment policies become more of a social policy; i.e., is it good and right for someone to be fully employed? If it is, what is fully employed?

We have these anomalies in our current system that we have to live with. We have large numbers of people unemployed, and yet last year we had over a million overtime hours in Ontario. We have people who are working in excess of 48 hours a week, and we have other people who do not have any hours per week. Obviously, there are problems.

Following your presentation, especially building on the service sector and that becomes an increased area of activity, what does that suggest to you a government should do in terms of its budgeting and in terms of the direction of its economic policies?

Mr. Radwanski: Wow, that is a big question to try to answer.

Mr. Warner: Yes, and you have two minutes.

Mr. Taylor: That lets him off the hook.

Mr. Radwanski: I do not know that there is a single major thing one can do in that regard. Let me come back for a moment to what you said about overtime, etc., or more generally about work. Implicit in what you are saying and what I am saying is that, among other things, we may have to think very hard about what we mean or what we want to mean by full employment, which is to say I believe there has to be a right of the individual to a sense of meaningful participation in society and the economy and a meaningful share in the wealth and the output of that society. Whether that means or should mean trying to create nine-to-five jobs, assembly-line jobs or what have you for people who are not needed in that sense is a very different question.

1200

Again, that brings me back to what I was saying earlier about types of jobs. For instance, if we are going to have literally a make-work project, we have tended to think in terms of road construction or any of those things that are sort of physical labour. For instance, we have not tended to think as much of saying, "Right. We want job creation. Let us have a major day care job creation. Let us spend X million dollars on day care and make sure it is done in a way that employs the maximum number of people" and so on. That kind of thinking needs to be revised.

Mr. Taylor: If you are not working, you probably will not need the day care.

Mr. Radwanski: That is a comment.

Mr. Chairman: Is that on the record, Mr. Taylor?

Mr. Taylor: It was just a bad example.

Mr. Radwanski: In terms of broader economic policies or budget policies, one obvious area that I advocated, particularly in the interim report, was to remove certain biases that there have been in the tax system at the federal and the provincial levels that favour manufacturing activity over service sector activity. There is an explicit bias in the tax system in terms of the level of taxes for the two, which to me does not make a whole lot of sense. It is a reflection of previous attitudes.

Mr. Chairman: Removing biases in favour of manufacturing?

Mr. Radwanski: That currently favour manufacturing.

Mr. Chairman: We are going to be hearing some submissions to the effect that we should be taxing services more in retail sales tax and things of that nature that we do not have now.

Mr. Radwanski: I have some difficulty with the reasoning there. In the interim report, we looked at tax policy. To give an example, taking into account the planned changes in federal taxes, in 1989 the basic federal tax rate for manufacturing companies is to be 26 per cent compared to 33 per cent for other companies in the service sector. In Ontario the basic corporate tax rate is 14.5 per cent for manufacturing and 15.5 per cent for other firms.

My staff did a calculation that said in Ontario a small consulting firm and a small manufacturing firm, each with a taxable income of \$12,000, would pay the same amount in Ontario tax, which is \$1,200, but the small service sector firm would pay federal tax of \$1,800 compared to only \$1,200 for the small manufacturer, so in total, the way it works out, the service sector firm would pay 25 per cent more and similarly for large firms. There is that kind of imbalance in the system.

When we talk about putting a sales tax on services and so forth, my problem is that, first, I do not like consumption taxes because I regard them as regressive, and second, a lot of service businesses are small. Because of the small business aspects of a lot of service sector activity, the kind of paperwork burden and administrative burden you can be putting on that could be horrendous. Another consideration is that some services obviously, health care and what not, should not be taxed. There is also an argument that, given the existing biases in the economy in favour of manufacturing rather than services, putting a sales tax on services would remove the only kind of balancing area there is in the process.

If we get into so-called value added taxes or the business transfer tax that the federal government is playing with, from the relatively little I know of it since we have not seen the details, that has additional dangers. It could be directly discriminatory against service sector businesses in the sense that, if I understand the addition and subtraction, the tax would work on the basis of being taxed on the value of your sales less the value of your purchases and inputs. But if I understand correctly, the thinking is not to include payroll where salary is one of the inputs for that purchase.

If that is the case, then service sector activities, particularly the sophisticated knowledge-intensive ones, which are particularly people-intensive--a consulting firm for instance, to use one example, does not buy a whole lot of raw materials, it buys brain power. It would find itself being far more heavily taxed than a manufacturer of widgets who subtracts the cost of equipment, raw materials and so forth. It could be another instance of building in a bias against services.

To the degree that services have been the engine of employment growth and given that we have not found any other formulations for employing people in more ingenious ways, by and large, there is a danger that raising the cost of services can reduce the demand and get us in real trouble. The short answer is that I am personally not at all sympathetic to notions that we should increase the taxation emphasis on services.

Mr. Chairman: Thank you very much. That is very helpful. I am sure we will quote you if we hear that presentation to the effect that we should be taxing services. Thank you for coming back. We appreciate the work you have been doing for the Ministry of Treasury and Economics.

Members of the committee, during the course of the deliberations, you have had a tomb distributed to you, which I see many of you have been entranced with.

Mr. McFadden: A veritable blizzard of paper.

Mr. Chairman: I should indicate to you that it has been brought up at the chair here that perhaps we should return these reports. We have not distributed all of them to you. We will put them in a binder for you, properly indexed, because they are probably too voluminous to deal with.

In my own report with regard to my activity in Washington, I have indicated a feeling of my own with a certain certainty that there will be an agreement signed in September 1987. I have a feeling in that period from then until January 1988, the United States administration will be intensely lobbying the Congress. At the same time, our federal administration, perhaps vicariously, will be lobbying the provinces; if not directly lobbying them, then selling to the Canadian public whatever it signed. I pointed out some concerns I have with the process proceeding that way.

You will see that I have indicated some concerns and some interest in the national treatment, the fact that it is being considered, the extent to which it affects the service industries, and some interesting proposals that were looked at by Jacques Parizeau particularly to the effect that perhaps we have to call it provincial treatment. It is my own feeling that there should be a much more extensive national debate on national treatment than has occurred until now.

I would like to have an opportunity to discuss this fully with the committee. Certainly, if we are planning another sojourn into the United States, it might be appropriate to do that at the earliest opportunity, when there is a gap in the witness list.

Mr. McFadden: We may have one soon.

Mr. Chairman: We possibly may. In any event, I will be prepared to discuss what I have written there with you at that time. I will be delighted to.

I mentioned that perhaps you might want to turn your documents back. It is not that we want to hold them from you, but perhaps we could index them. Basically, the frontispiece here is the--

Mr. McFadden: When will we be able to get these program schedules?

Mr. Bond: I would say early next week.

Mr. Chairman: Right now they do not have enough binders.

It might be interesting to note too that on this document, what you have looks like a star but in fact the motif was an attempt to put a star and a maple leaf together. Somehow, once it was reproduced, all we had was a star. I do not know whether that is symbolic of anything or not.

We are adjourned until Tuesday, which incidentally is federal budget day.

The committee adjourned at 12:09 p.m.

AUG 26 1987

